Forecast: US Debt to dwarf GDP

Former budget office chiefs say 'something has to give'

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By Jerome R. Corsi

A blue-ribbon panel that includes three former heads of the Congressional Budget Office is telling President Obama and the Democrat-controlled Congress that the federal deficit must be cut now or the national debt within about two generations will be 600 percent of the gross domestic product.

President Obama

"The debt level of the United States is unsustainable, something has to give," said Rudolph Penner, former head of the CBO and co-chairman of a report issued last week by the National Research Council and the National Academy of Public Administration.

The report concludes federal deficit spending is so out of control that unless Obama and Democrat leaders on the Hill make changes now, debt in 2080 will be six times what the nation produces.

The alarm is being sounded just as the Obama administration is preparing to push his nationalized health care plan through Congress. It comes from a bipartisan group of top economic policy experts, including three former heads of the CBO, who warned existing entitlement programs including Medicare, Medicaid and Social Security already are creating a fiscal crisis for the nation without the addition of government-funded universal health care.

"The fundamental problem is that we have these three very large programs – Medicare, Medicaid and Social Security – that … are growing faster than tax revenues and faster than the economy," Penner told WND.

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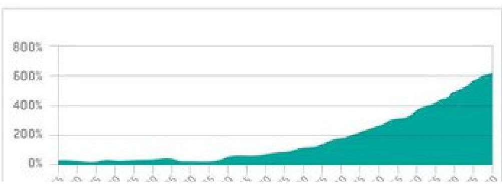
The result is "an unsustainable federal budget deficit" that Penner described as "ever onward and upward."

With the recession and the huge stimulus package added to the beginning of the baby boomers retiring, United States debt is already at 50 percent of gross domestic product, or GDP, and is projected to grow to 80 percent of GDP by 2019, according to Congressional Budget Office estimates of the Obama administration budget plans as they currently stand.

Studying the growth in three major entitlement programs – Medicare, Medicaid, and Social Security – the report, "Choosing the Nation's Fiscal Future," said spending was far outpacing tax revenue such that "any efforts to rein in future deficits must entail either large increases in taxes to support these programs or major restraints on their growth – or some combination of the two."

Unless action is taken immediately, the study warned, the U.S. "faces the risk of a disruptive fiscal crisis."

In an alarming chart, the study projected that federal debt would be more than seven times the nation's GDP in 75 years if no action is taken to constrain or offset the growth of Social Security, Medicare and Medicaid and if tax rates stay near their current level.



The report predicted a frightening fiscal future for the U.S. should the Obama administration and Congress fail to act.

"If remedial action is postponed for even a few years, a large and increasing federal debt will inevitably limit the nation's future wealth by reducing the growth of capital stock and of the economy," the panel advised. "It will also increase the nation's liabilities to investors abroad, who currently hold about one-half of the federal government's debt."

Increasing debt to GDP levels also causes problems with increased interest payments for U.S. taxpayers in the future who will be obligated to pay ever-rising costs just to finance current budget deficits.

"Increasing debt also may contribute to a loss of international and domestic investor confidence in the nation's economy, which would, in turn, lead to even higher interest rates, lower domestic investment, and a falling dollar."

The panel suggested four different solutions, varying the mix of entitlement program spending and tax increases in the policy alternatives:

1. *Low Spending and Revenue.* Tax revenues are held near their recent average level of 18 to 19 percent of GDP, and entitlement spending is constrained to 2 to 3 percentage points higher than revenues.

   "This path would require sharp reductions in projected growth rates for health and retirement programs, as well as reductions in the proportion of the economy's resources available for all other federal responsibilities."

2. *High Spending and Revenue.* Taxes and entitlement spending are increased substantially, with spending eventually reaching one-third of GDP.

   "Because this spending level is still less than under a continuation of current policies, it would require an eventual reduction in the rate of growth of health spending. It would, however, accommodate the spending needed to maintain currently scheduled Social Security benefits."

3. *Intermediate Path No. 1.* Tax revenues and spending rise gradually to about one-fourth of GDP and spending on the elderly population would be constrained to support only modest expansion of other federal spending.

   "The growth rates for Social Security Medicare, and Medicaid would be slower than under current policies. This path reflects the view that the government should make selective new public investments to promote economic growth, preserve the environment, and build for the future."

4. *Intermediate Path No. 2* Tax revenues and spending would eventually rise to a little more than one-fourth of GDP.

   "Spending for health and retirement benefits for the elderly population would be slowed but less constrained than in the Intermediate-1 path. This reflects the view that the government's implicit promises for the elderly are a higher priority than other spending."

All four budget alternatives were constructed with a view to keeping U.S. debt on what the panel considered a sustainable ratio of 60 percent U.S. debt to GDP.

The problem with implementing any of the budget alternatives is that the Obama administration and the Democrat-controlled Congress have demonstrated a propensity to increase entitlement programs dramatically, without producing a politically acceptable means of increasing taxes to pay for the programs.

Consistently, the Obama administration has resorted to a form of class warfare, threatening to "tax the rich" to pay for expanded social welfare programs, including the Democrat health plan.

Programs like Medicare, Medicaid and Social Security are entitlement programs by nature and have automatic expansion built into them, especially as the baby-boomers retire, Penner noted, in contrast to government-funded health programs in Britain and Canada that operate on fixed budgets and ration health care.

"To restrain these programs, they have to be very significantly restructured. Health programs are especially difficult because they are impacted both by the aging of the population and the inexorable rise in per capita health costs," Penner said.

Penner was also concerned that the political resolve to increase taxes was much less firm than the urge to increase entitlement programs to a level beyond the ability of the federal government to finance the programs with ever-increasing levels of debt spending.

Penner also admitted the tax revenue assumptions of the report were optimistic.

"Our revenue assumptions are extremely optimistic as they stand," he agreed. "We use the CBO baseline, which has us going on current policy and has the deficit ever-increasing. CBO assumes, quite unrealistically, that foreigners are going to provide all the savings we need at a constant interest rate. That's how CBO keeps the economy growing in the face of extraordinarily large deficits."

Higher interest rates needed to attract U.S. savings into Treasury debt financing could deprive the private economy of the capital needed to generate economic growth.

Penner is a fellow at the Urban Institute. He was the director of the Congressional Budget Office from 1983 to 1987. From 1977 to 1983, he was a resident scholar at the American Enterprise Institute.

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