

US debt will keep growing even with recovery

US debt will soon be unsustainable without higher taxes and spending cuts, even with recovery

By Tom Raum, Associated Press Writer, On Sunday February 14, 2010, 10:11 am EST

WASHINGTON (AP) -- It's bad enough that Greece's debt problems have rattled global financial markets. In the world's largest economic and military power, there's a far more serious debt dilemma.

For the U.S., the crushing weight of its debt threatens to overwhelm everything the federal government does, even in the short-term, best-case financial scenario -- a full recovery and a return to prerecession employment levels.

The government already has made so many promises to so many expanding "mandatory" programs. Just keeping these commitments, without major changes in taxing and spending, will lead to deficits that cannot be sustained.

Take Social Security, Medicare and other benefits. Add in interest payments on a national debt that now exceeds \$12.3 trillion. It all will gobble up 80 percent of all federal revenues by 2020, government economists project.

That doesn't leave room for much else. What's left is the entire rest of the government, including military and homeland security spending, which has been protected and nurtured by the White House and Congress, regardless of the party in power.

The U.S. debt crisis also raises the question of how long the world's leading power can remain its largest borrower.

Moody's Investors Service recently warned that Washington's credit rating could be in jeopardy if the nation's finances didn't improve.

Despite election-year political pressure from voters for lawmakers to restrain spending, some recent votes suggests that Congress, left to its own devices, probably isn't up to the task of trimming deficits.

Both the Obama administration and Democratic leaders have put job creation ahead of deficit reduction for now.

The Senate faces an important vote after it returns on Feb. 22 from its President's Day recess on a bill intended to stimulate job growth. The legislation offers a \$13 billion payroll tax credit for companies that hire unemployed workers, including an additional \$1,000 tax credit for workers retained for a full year.

Proposed belt-tightening steps by President Barack Obama, including a freeze on some nondefense, nonentitlement spending, would make only a small dent in the mountain of debt.

The budget he submitted to Congress this month proposes record spending of \$3.8 trillion for 2011. Taxes in next year's budget will support only \$2.5 trillion of that spending, leaving \$1.3 trillion to be borrowed.

The president's budget is a best-case outlook, from the administration's vantage point.

It doesn't take into account future liabilities from the growth of entitlement benefits and is based on projected economic growth that depends on a solid recovery. It assumes Congress will pass all of Obama's initiatives, including spending cuts and tax increases previously rejected by Congress.

Congress already has rejected a bipartisan deficit commission that could have forced Congress to take painful steps on tax increases and entitlements.

The commission would have been modeled on one that makes military base-closing decisions, forcing Congress to take up or down votes. The Senate turned aside the legislation last month after some original Republican supporters jumped ship once Obama endorsed the plan.

Proponents say this type of commission is the only way to make painful debt decisions. Obama says he'll create a bipartisan commission by presidential order instead.

"In the end, solving our fiscal challenge -- so many years in the making -- will take both parties coming together, putting politics aside, and making some hard choices about what we need to spend, and what we don't," Obama said in his weekly Saturday radio and internet address.

Still, his commission wouldn't have the power to force a congressional vote.

Obama's call for fiscal austerity came at the same time he signed legislation lifting the cap on government debt from \$12.4 trillion -- which is

close to being breached -- to \$14.3 trillion to permit more borrowing.

The same law puts in place new budget rules praised by deficit hawks that would require future spending increases or tax cuts to be paid for with higher taxes or other spending cuts. "After a decade of profligacy, the American people are tired of politicians who talk the talk but don't walk the walk when it comes to fiscal responsibility," Obama said.

It's not clear when the debt's day of reckoning will arrive. But the overall national debt over the next few years will rise to 100 percent of the gross domestic product -- a level viewed as alarming by the International Monetary Fund and international economists.

The Social Security system, the biggest social spending program, has begun paying out more in benefits than it collects in payroll taxes. For the past quarter-century, Social Security had produced a surplus that helped finance the rest of the government.

Medicare, the health care program that now covers 45 million elderly and disabled people, is in worse shape. It's been paying out more than it takes in since 2008 and its trust fund is projected to run out of money in 2017.

Carmen Reinhart, an economics professor at the University of Maryland and a former IMF official, suggested the nation's fast-growing indebtedness may not have a visible impact at this point on ordinary Americans. But some day it will pounce.

"One thing we can say with a fair amount of certainty," she said. "We never know when the wolf will be at our door. The wolf is very fickle and markets can turn very quickly. And a high debt level makes us very vulnerable to shifts in sentiment that we cannot predict."

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