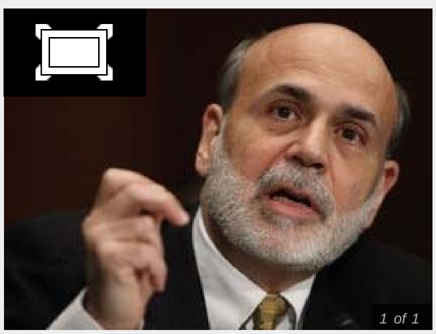
Friday, March 26, 2010

CBO report: Debt will rise to 90% of GDP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...fiscal 2011 budget will ...0 trillion in cumulative ... the next 10 years, $1.2 ...e administration ...e the federal debt to 90 ...n's economic output by 2020, the Congressional Budget Office reported Thursday.

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In its 2011 budget, which the White House Office of Management and Budget (OMB) released Feb. 1, the administration projected a 10-year deficit total of $8.53 trillion. After looking it over, CBO said in its final analysis, released Thursday, that the president's budget would generate a combined $9.75 trillion in deficits over the next decade.

"An additional $1.2 trillion in debt dumped on [GDP] to our children makes a huge difference," said Brian Riedl, a budget analyst at the conservative Heritage Foundation. "That represents an additional debt of $10,000 per household above and beyond the federal debt they are already carrying."

The federal public debt, which was $6.3 trillion ($56,000 per household) when Mr. Obama entered office amid an economic crisis, totals $8.2 trillion ($72,000 per household) today, and it's headed toward $20.3 trillion (more than $170,000 per household) in 2020, according to CBO's deficit estimates.

That figure would equal 90 percent of the estimated gross domestic product in 2020, up from

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40 percent at the end of fiscal 2008. By comparison, America's debt-to-GDP ratio peaked at 109 percent at the end of World War II, while the ratio for economically troubled Greece hit 115 percent last year.

"That level of debt is extremely problematic, particularly given the upward debt path beyond the 10-year budget window," said Maya MacGuineas, president of the bipartisan Committee for a Responsible Federal Budget.

For countries with debt-to-GDP ratios "above 90 percent, median growth rates fall by 1 percent, and average growth falls considerably more," according to a recent research paper by economists Kenneth S. Rogoff of Harvard and Carmen M. Reinhart of the University of Maryland.

CBO projected the 2011 deficit will be $1.34 trillion, not much different from the administration's estimate of $1.27 trillion. However, CBO's estimate of the 2020 deficit at $1.25 trillion significantly exceeds the administration's $1 trillion estimate.

"The biggest part of the deficit difference is lower tax revenue due to the different economic assumptions," said James R. Horney, a federal-budget analyst at the liberal Center on Budget and Policy Priorities. "The administration assumes GDP and incomes will be higher, and that translates into higher revenues than CBO expects. Relatively small differences in economic assumptions can add up to big differences over 10 years."

While Ms. MacGuineas agreed that "economic forecasts have a large impact on budgetary projections," she cautioned that such differing assumptions, often called the "rosy scenario," could account for just $350 billion of the 10-year, $1.2 trillion difference between the White House and CBO.

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