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CBO: Federal debt to double in 15 years

Fiscal challenges worst since WWII

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Federal debt will double by the middle of the next decade and reach more than twice the size of the entire U.S. economy by 2037 unless Congress changes course on taxes and spending, the Congressional Budget Office said in its latest analysis Tuesday.

The CBO said it's the country's worst fiscal picture since a brief period during World War II, when spending ballooned to fund the military campaign but returned to normal soon after the war ended.

"In the past few years, the federal government has been recording the largest budget deficits since 1945, both in dollar terms and as a share of the economy. Consequently, the amount of federal debt held by the public has surged," the nonpartisan agency's analysts said in a grim review of the government's budget challenges.

The CBO said growing debt will be driven chiefly by an aging population that needs higher spending on health care, and by higher interest payments on the debt. Public debt will be equal to 70 percent of gross domestic product at the end of this fiscal year — up from 40 percent at the end of 2008 [-] and will be on its way to more than 200 percent of GDP by 2037.

At that level, fiscal catastrophes are more likely, and the government's ability to respond becomes far more constrained.

Ironically, the CBO said the deep deficits and debt don't have to happen. If Congress would step out of the way, major tax increases and deep spending cuts already built into the law would take effect and debt would begin to shrink almost immediately.

However, those tax increases and spending cuts have repeatedly proved to be unpalatable on both sides of the aisle.

Instead, the GOP has fought to permanently extend lower tax rates, and Democrats have defended existing spending programs and proposed some new ones.

That has left the country bumping along with deficits of $1 trillion or more each of the last three years. Yet with the economy still weak, lawmakers remain paralyzed as they try to figure out how to act over the long term without harming the economy now.

The report produced hand-wringing and finger-pointing on Capitol Hill.

"The president's policies are not working," said House Budget Committee Chairman Paul Ryan, Wisconsin Republican. "The sobering reality of our economic challenges require leadership and action. The president and his party's leaders have failed on both counts."

But House Minority Whip Steny H. Hoyer, Maryland Democrat, said the hurdle is the GOP's demand that spending cuts fuel any debt solution.

The "CBO's report is a warning that we must get our fiscal house in order by achieving big and balanced deficit reduction that includes both spending and revenues," he said. "Cutting domestic spending alone won't work, and it will require both parties working together."

At the White House, press secretary Jay Carney said Mr. Obama wants a "balanced way" that raises taxes, while Republican presidential candidate Mitt Romney's campaign said Mr. Obama's budget was rejected unanimously by Congress, and said the president hasn't put forward a plan to reform the entitlement spending that is driving long-term debt.

But some signs of cooperation have poked through in recent weeks.

A bipartisan group of senators met behind closed doors Tuesday and emerged proclaiming new urgency about the country's fiscal picture in the face of the European debt crisis.

The several dozen senators met with Robert B. Zoellick, outgoing president of the World Bank, who warned the lawmakers to be ready to put aside partisan differences.

"There's a real sense that Europe's economy is in a deep crisis, and if it slides further it will drag down the United States even more," retiring Sen. Joe Lieberman, an independent from Connecticut, said after the meeting. "Everyone seems to know that. The question is whether we'll have the guts to do anything about it."

In its analysis of the long-term budget, the CBO ran two sets of numbers.

The first set assumed the 2001 and 2003 tax cuts expire at the end of this year, the alternative minimum tax hits more families, the automatic spending cuts agreed to last year take effect and Congress allows deep cuts to payments to doctors who treat Medicare patients. Under those assumptions, debt drops.

But under the second set of assumptions Congress delays all of those tax increases and spending cuts, and debt explodes. That would also have a decidedly negative impact on the economy — at least 4.4 percent lower than it would otherwise be in 2027, and 13.4 percent lower in 2037.

The CBO's analysis gives some interesting snapshots about how both the budget and the economy will change.

Among the CBO's assumptions is that the U.S. population will reach 389 million in 2037 and top 500 million in 2087, with the population skewing ever older.

Older workers tend to work fewer hours, meaning that by 2087 the average number of hours worked per employee in the workforce will be about 2 percent less than in 2022.

The CBO also predicted that the growth in the labor force will slow, keeping economic growth to an average of 2.2 percent over the long term. But the interest rate on debt will be higher, at an average of 2.7 percent — a reversal from recent years, when economic growth and interest rates were about the same.

The agency also put an exact price on the deficit when it comes to savings. The CBO said that for each dollar the deficit rises, national savings is reduced by between 32 cents and 72 cents, and domestic investment is reduced by between 10 cents and 50 cents.