Originally published 04:00 a.m., March 26, 2010, updated 06:51 a.m., March 27, 2010

CBO report: Debt will rise to 90% of GDP

David M. Dickson

President Obama's fiscal 2011 budget will generate nearly $10 trillion in cumulative budget deficits over the next 10 years, $1.2 trillion more than the administration projected, and **raise the federal debt to 90 percent of the nation's economic output by 2020**, the Congressional Budget Office reported Thursday.

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 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.

The president has established a fiscal commission to propose actions to reach his goal of balancing the budget by 2015, except for net interest payments, which CBO projects to total $520 billion that year. The president's budget, however, will generate a $793 billion deficit in 2015, according to CBO.

"The proposed budget is woefully insufficient to achieve the president's goal or the important fiscal goal of stabilizing the debt at a reasonable level in the medium and long term," Ms. MacGuineas said.

The CBO and the administration expect the deficit for fiscal 2010, which ends Sept. 30, to approximate $1.5 trillion and exceed 10 percent of GDP, the first time that threshold will have been reached since World War II. Before last year's deficit reached an eye-popping 9.9 percent of GDP, the biggest postwar deficit was 6 percent of GDP in fiscal 1983.

In addition to the free-spending fiscal policy the U.S. government will pursue, monetary policy will remain loose in the near term, Federal Reserve Chairman Ben S. Bernanke told a congressional committee Thursday.

Citing still-fragile economic conditions and noting the low level of inflation, Mr. Bernanke told the House Financial Services Committee that the Fed would maintain historically low short-term interest rates for the time being.

Tightening would not begin until the "expansion matures," he said, though he did not provide a specific timetable for ratcheting up interest rates.

Indicative of the economy's ongoing fragility, especially in the labor market, was the fact that first-time claims for unemployment benefits were still a relatively high 442,000 last week, the Labor Department reported Thursday. The number was a decline of 14,000 over the previous week's seasonally adjusted number.

Economists disagree over the propriety of running a $1.5 trillion deficit this year as the economy shifts into recovery mode. But they generally agree that budget deficits should proceed along a consistent, downward path as the expansion matures. Most economists, therefore, fear the prospect of rising deficits in the latter part of this decade, long after steady economic growth has returned and unemployment has plunged.

In a worrisome development, CBO projects that federal budget deficits, after dropping sharply, then will begin to rise continuously from 4.1 percent of GDP in 2014 to 5.6 percent in 2020.

For the 2016-20 period, CBO estimates that deficits will average more than 5 percent of GDP, even while assuming the economy will be near full employment, with an average jobless rate of 5 percent during that same five-year period.

One economist concerned about unsustainable fiscal policy in the out years is OMB Director Peter R. Orszag.

"Deficits in the, let's say, 5 percent of GDP range would lead to rising debt-to-GDP ratios in a manner that would ultimately not be sustainable," Mr. Orszag acknowledged to reporters on March 20, 2009, two months after the administration entered office.