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Fed Boss: 'Deficits a Real and Growing Threat'

Federal Reserve Chairman Ben Bernanke warned about American's massive government deficits on Monday. He called them a "real and growing" threat.

Also, there may be another government spending crisis on the horizon.

America is on track to set the second-highest deficit in history -- \$1.3 trillion. That's just slightly below last year's record of \$1.4 trillion.

With Washington, D.C. still spending and the federal debt still climbing, the nation's top monetary policymakers are sounding the alarm.

"The threat to our economy is real, and it is growing, which should be sufficient reason for fiscal policy makers to put in place a credible plan for bringing down deficits to sustainable levels over the medium term," Bernanke said.

One factor contributing to the problem is government spending.

Congress passed the \$814 billion stimulus package to jump start the economy, which was used to bailout out banks and the automobile industry.

Congress is waiting to hear from President Barack Obama's debt commission sometime after the elections to address how to bring down the federal debt.

"President Obama has been a spender unlike any other president since Lyndon Johnson in the 1960's," said Chris Edwards, director of tax policy studies at the Cato Institute. He passed his giant \$800 billion stimulus package last year which hasn't stimulated the economy its only put us further into debt."

However, it's not just the federal government that's having trouble managing money, but dozens of states as well.

Analysts warn the situation is so bad that it may require the federal government to step in to help.

After breaking a record in lateness, California legislators will reconvene this week to try to close the state's \$19 billion budget deficit.

"We intend to vote on a 2010 - 2011 budget finally," said Darrel Steinberg, president pro tempore of the California State Senate.

The budget plan reportedly includes spending cuts, selling a dozen state office buildings, and relying on billions of dollars in federal funding.

Still, California is only one of 46 states that have had faced budget shortfalls amounting to gaps of more than \$70 billion in the next fiscal year.

Meredith Whitney, a Wall Street analyst, is warning that the budget crises will result in the third trillion dollar bailout.

"The similarities between the states and the banks are extreme to the extent that states have been spending dramatically and are leveraged dramatically," Whitney said.

"Municipal debt has doubled since 2000, spending has grown way faster than revenues," she added.

Even with its own massive and growing debt, Washington may soon find itself embroiled in another debate -- does it spend more money on some sort of financial bailout for the states, or not?