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Federal debt reaching alarming rate, congressional budget officer warns

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WASHINGTON – The federal debt will reach 62 percent of the nation's economic output this year – the highest level since shortly after [World War II](#) – the head of the nonpartisan [Congressional Budget Office](#) told members of the [White House](#) fiscal commission this morning.

Under all but the rosier economic scenarios, budget office director Doug Elmendorf warned, "significant changes in tax or spending policy, or both" may be needed to control the long-term debt and avert a crisis.

Personal income taxes might have to rise by 50 percent if the fix comes entirely from the revenue side, he said. Or, without tax increases, [Congress](#) would have to cut federal spending by roughly a fifth by 2020– a level that would entail the "near elimination" of all government programs other than defense, Medicare, Medicaid and Social Security.

"Keeping deficits and debts from growing to unsustainable levels would require raising revenues as a percentage of GDP [gross domestic product] significantly above past levels, reducing future outlays sharply... or some combination of those approaches," Elmendorf said.

The comments came at the outset of the third monthly meeting of the bipartisan National Commission on Fiscal Responsibility and Reform, charged by [President Barack Obama](#) with issue recommendations in December to curb the nation debt – now \$13 trillion and rising.

The sooner steps are taken to curb deficits, the smaller and more gradual the adjustments would have to be. Elmendorf agreed, though, that it's reasonable to run short-term deficits to stimulate a sluggish economy – through higher spending or lower taxes – as long as spending restraint or higher revenues return when the economy recovers.

At the outset of the 18-member commission's meeting, co-chairman [Alan Simpson](#), a former [Republican](#) senator from Wyoming, said he's received all manner of hate mail accusing the commission of plotting to raise taxes, cut retirement benefits and play on emotion, fear and guilt in a rush toward unpopular and possibly unnecessary policy changes.

He's even heard it called "the cat food commission" –a reference to the image of seniors too impoverished to afford groceries.

Today's meeting will run for at least eight hours, with commissioners for the first time taking public comment. More than 90 individuals, interest groups and think tanks have signed up for four-minute

speaking slots this afternoon.

"Don't just tell why we're crazy or why we're wrong, but tell us how you would" close the nation's fiscal gap, Simpson pleaded.

[AFL-CIO](#) president [Richard Trumka](#), for instance, will urge the commission to focus on reducing [unemployment](#), arguing that any attempt to "prematurely" phase out stimulus spending would risk throwing the nation into a double dip [recession](#), or worse.

Dallas Rep. [Jeb Hensarling](#), one of the GOP commissioners, said in an exchange with Elmendorf, though, that stimulus spending so far under Obama "has been a dismal failure" that has done little besides driving up the debt.

He noted that both Elmendorf and [Federal Reserve](#) Chairman [Ben Bernanke](#) have told the commission that taking serious steps toward fiscal restraint would go a long way toward ensuring long-term economic growth.

Last year, the federal debt amounted to about 50 percent of gross domestic product, which itself was far above the four-decade average of 36 percent.

[Erskine Bowles](#), the Democratic co-chairman, said the commission welcomes innovative ideas. "If we don't restore some fiscal sanity around here, as a nation we are going to go broke," he said.

The budget outlook is much bleaker under some scenarios. Under one relatively likely set of assumptions, Elmendorf foresees federal debt reaching 87 percent of economic output by 2020 and topping its record of 109 percent five years after that – levels widely deemed to be unsustainable.

[Senate](#) Budget Chairman [Kent Conrad](#), D-N.D., said that "the hard reality for this commission is that... we face an unsustainable long-term debt" under any scenario. "The adjustments needed are really quite large. We're not talking about just modest changes. We're not talking about just tinkering around the edges."

But Senate Democratic Whip [Dick Durbin](#) of Illinois noted the lack of consensus about the solutions at this point. "We have a pretty tough challenge. I don't know if it's politically possible as I look around the table," he said.

Bowles, sharpening the commission's focus, set a target of eventually balancing the budget with revenues and spending at roughly 21 percent of gross domestic product; that was a bit high for Hensarling's taste. He has proposed a constitutional amendment setting a 20 percent spending-to-GDP cap.

Throughout the afternoon, six or eight commissioners were on hand to hear from a parade of speakers. Few offered specific ideas and prescriptions.

Robert Bixby, executive director of the Concord Coalition, a bipartisan fiscal watchdog group, urged commissioners to use their best judgment without regard to the fierce resistance most solutions would trigger.

"You can't go into fantasy land," he said, but "there is nothing that I can think of that is politically realistic that would solve this problem. There's a reason people always drop back to cutting `waste, fraud

and abuse' and things that aren't going to hurt anybody."

[Chris Edwards](#) , director of tax policy at the libertarian [Cato Institute](#), focused on a need to downsize government and cut unneeded spending, including agriculture subsidies. "They're welfare for the well-to-do," he said.

Maya MacGuineas, president of the Committee for a Responsible Federal Budget, quipped that the austerity facing the country needs is "so much less fun than fiscal irresponsibility."

She offered one of the more extensive menus of ideas: deep defense cuts; raising the Social Security retirement age, indexing benefits to longevity, and reducing spousal benefits; eliminating tax breaks for health care insurance; capping the home mortgage deduction; and imposing a broad based carbon tax.

"The reason for making these changes is not just for fiscal austerity but to put us back on the path of prosperity," she said.

Robert Greenstein, executive director of the left-leaning Center for Budget and Policy Priorities, also urged the commission to be mindful of the need to "protect the most vulnerable" as it crafts austerity measures.

Any number of speakers – echoing many commissioners and Elmendorf – focused on the threat of rising health care costs, despite the recent health care legislation. Many warned against imposing tax hikes or spending cuts too soon.

John Irons, research director at the left-leaning [Economic Policy Institute](#), urged policymakers to hold off taking any steps that might impede growth until unemployment falls below 6 percent. He also pressed commissioners to be mindful of education, retirement security and other national objectives. "Deficit reduction without this context is merely a mathematical exercise," he said.

[David Walker](#) , president of the [Peter G. Peterson](#) Foundation and former head of the [Government Accountability Office](#) – suggested a 7 percent unemployment target, though he wants Congress to start working under "pay as you go" budgeting rules now to stanch the red ink now.

Peterson was among the sponsors of last weekend's national town hall on the debt, in which residents of Dallas and 18 other cities brainstormed ways to cut \$1.2 trillion from the budget, through tax hikes and spending cuts. One finding, Walker said, is that the public will tolerate short-term deficits until the economy is stable, but only if that is coupled with long-term planning.

"When they're told the truth and they're given the facts, they understand the need to make tough choices," Walker said. "They're willing to make tough choices, but they're not willing to trust promises. They want concrete actions on both fronts, soon."