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White House Prediction of $9.05 Trillion in New Federal Debt is Pedicated on Assumption Economy Will Grow Briskly for a Decade

Wednesday, September 02, 2009

By Matt Cover

(CNSNews.com) – The Obama administration's updated budget forecasts--which anticipate that the federal government will run up $9.05 trillion in new debt over the next decade--is predicated on the assumption of a robust rate of economic growth during that entire period, claiming that the nation's Gross Domestic Product (GDP) will grow at an average rate of 2.8 percent between 2009 and 2019.

If the economy does not grow as much or as persistently as the administration predicts federal deficit spending will be even greater than the administration estimates.

The administration predicts that while GDP--a measure of all goods and services produced in the economy--will shrink 2.8 percent this year, it will begin growing again sharply by 2011, reaching 4.3 percent by 2012 before leveling out at around three percent through 2019.

However, data from the federal Bureau of Economic Analysis (BEA) suggest that this may not turn out to be the case. While the economy typically rebounds after a recession, it rarely maintains that higher level of growth.

For example, following two years of economic contraction in 1974-75, the economy grew by 5.4 percent the following year. It maintained robust growth until 1980, when it contracted again by 0.3 percent – in all, a growth period of only four years.

A similar pattern occurred in the 1980's when, after contracting in 1982, the economy rebounded, growing by 7.2 percent in 1984 before leveling out to a growth rate of between 3.5 and four percent. Then it began to shrink again between 1989 and 1990.

It moved from a growth rate of four percent in 1988 to a mere 1.9 percent in 1990 before shrinking in 1991. That constituted a growth period of five years, according to BEA data.

The longest period of sustained growth since 1960 lasted from 1992 to 2000, when the economy grew at an average rate of 3.8 percent, a nine-year period of sustained growth. That period was followed by a sharp contraction in 2001 and 2002, when growth dropped from 4.1 percent in 2000 to 1.1 percent in 2001.

The primary difference between the strong growth period of the 1990's and today apparently was the federal government's commitment to modest spending and a balanced budget. That commitment no longer exists, said Cato Institute Director of Tax Policy Chris Edwards, because neither Obama nor his GOP counterparts seem committed to fiscal responsibility.

"Now both parties are so wimpy that you've got these deficits going out as far as the eye can see and not really shrinking at all," Edwards told CNSNews.com. "The fact that by 2019 it's [the deficit is] still going to be over $900 billion, it's unbelievable."

Edwards said the country faced a "spending emergency" that neither party seems too concerned about. Obama, he said, seemed bent on continuing policies that would only hurt economic growth and keep his rosy projections from becoming reality.

"Clearly there's a spending emergency here and politicians of both parties aren't doing anything about it," he said. "It's a completely ridiculous position, frankly, for both parties to be in."

"The Obama administration should be doing things that are good for long-term growth and the economy, and they're not," said Edwards, author of the book "Downsizing the Federal Government."

"Just about every Obama policy, whether it's the health care expansion, the cap-and-trade tax increases, all of these are going to be bad for the economy. They're going to hurt economic growth," he added.

Edwards said that Obama's economic projections were too rosy to be realistic.

"His economic projections are optimistic, given his anti-growth economic policies," said Edwards. "In other words, if you've got [estimated] growth running at four percent in 2012 or 2013, we're probably not going to get that if we have such anti-growth policies coming out of Washington."

Edwards offered that high growth is possible, as history shows, but only if the administration promotes the same pro-growth policies pursued by past administrations.

"These sorts of growth rates would be achievable if we had good policy, but we don't have good policy," said Edwards, who used to work as a senior economist on the congressional Joint Economic Committee.

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