

## What are these economists talking about? Deficits and debts in plain English

*By Ilana E. Strauss*

(AXcess News) Washington - People are barraged by numbers predicting economic success and doom on a daily basis.

Just this week, the Senate voted to allow the national debt to rise to \$14.3 trillion, the highest ever. The House is expected to take action next week.

The Congressional Budget Office released a report Tuesday on the state of the economy, leading analysts to come up with varying interpretations.

It's hard to know exactly which numbers to trust, how to make sense of the difference between cloudy economic terms and how to deal with bias.

Here is a basic guide to two of the most common terms that have been thrown around: national deficit and public debt.

### **National deficit**

2010 Estimate: \$1.4 trillion - CBO

#### **What it is:**

The deficit is the yearlong difference between "what the United States Government takes in from taxes and other revenues" and what the government spends. - U.S. Department of the Treasury.

#### **What that means:**

The projected deficit is the highest the U.S. has ever had, meaning the government has either been collecting less money, spending more, or both.

"The high deficits are an outrage" Chris Edwards, an economist at the libertarian CATO Institute in D.C., said. "They are unethical."

Others say the increased spending was necessary.

"It's clearly too much, but that has to be put in the obvious context of the recession," said Andrew Yarrow, vice president and director of Public Agenda's D.C. office. The group generally opposes higher deficits.

"Most would agree that the government had to do something," he said.

Michael Linden, associate director for tax and budget policy at the Center for American Progress, said, "The current deficit is not a concern. It is very high, but that's mostly a function of the emergency spending that had to happen."

CAP is a progressive group founded by former Clinton administration officials.

The deficit isn't just caused by spending, Linden said. The government has collected considerably less tax revenue this year because people were making less and because the government wanted to stimulate the economy by letting people keep more of their own money, he said.

### **Public debt**

2009 Calculation: \$7.6 trillion - CBO

#### **What that means:**

The public debt consists of all the deficits of previous years added together. It is all the debt owed by government branches. - U.S. Department of the Treasury.

Public debt is often confused with national debt, an estimate that includes the money different branches of government owe to one another and is therefore considerably higher than public debt. It's the national debt the Senate voted to raise this week.

#### **What that means:**

For most of national history, the U.S. didn't have a public debt.

"Other than during the Civil War and the World Wars, the U.S. largely balanced its budget until the late 1960s," Yarrow said.

U.S. public debt has been building up for the last half century.

"It's really the spending that's out of control," Edwards said. Wars over the past couple decades, domestic spending and tax cuts during the Bush years and recent stimulus plans have been expensive, he said. "Both parties are to blame."

Not all say the high debt is a problem.

"Right now the debt is at a manageable level," Linden said.

"It really can't get too much higher" without some risks coming into play, he said.

Lowering debt would mean making some sacrifices.

"In many ways, Americans have really wanted to have it all," Yarrow said.

"They've wanted to have more spending, but they've wanted to pay less in taxes, and that just doesn't add up," he said. "The government has played along with them."

## **Long-term effects of the public debt and deficits**

The public debt "doesn't have any effect in the near term," Linden said. "It's a high public debt, but it's not too much of a burden. The problem is if it continues to rise."

But Yarrow cautioned, "If we do nothing, entitlement programs," including Medicare and Social Security, "will compose all of the budget."

The debt will hit younger workers the hardest, Edwards said.

"There's a huge threat of enormous tax increases for young workers in the future," he said. "The increasing power of the elderly lobby will put pressure on politicians to raise taxes on young workers."

Many countries, waiting on the U.S. to pay back loans, are starting to question the value of holding U.S. debt, Yarrow said.

If these countries were to pull money out of U.S. markets, they could cause "severe panics in financial markets," he said.

This debt may be a problem for future generations.

"Money borrowed by the federal government must be paid back by future generations with interest," Rep. Mike Pence, R-Ind., said in a press release this week.

"There are a lot of ways this can hit individuals down the road," Yarrow said. "And not too far down the road."

Since debt has increased under both parties, placing the blame on a political party is unhelpful, Yarrow said.

"Debt and deficit have been caused by both Democrats and Republicans," Yarrow said. "They must be solved by Democrats and Republicans working together."

Source: *Scripps Howard Foundation Wire*