



White House, CBO debt forecasts challenge Obama

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By Alister Bull and Andy Sullivan

WASHINGTON (Reuters) - The U.S. national debt will nearly double over the next 10 years, government forecasts showed on Tuesday, challenging President Barack Obama's economic and healthcare overhaul agenda.

The White House mid-session budget forecast and the non-partisan Congressional Budget Office both forecast that government revenues will be crimped by a slow recovery from the worst recession since the 1930s Great Depression, while spending on retirement and medical benefits soars.

The White House projected a cumulative \$9 trillion deficit between 2010 and 2019, while the CBO pegged the total at \$7.1 trillion because it assumed higher revenues as tax cuts expire.

The spending blitz could push the national debt, now more than \$11 trillion, to close to \$20 trillion. The debt is the total sum the government owes, while the deficit is the yearly gap between revenues and spending.

"If anyone had any doubts that this burden on future generations is unsustainable, they're gone," said Senate Republican leader Mitch McConnell, adding that economic stimulus funds should be diverted to pay down U.S. debt.

However, both the White House and CBO anticipate that the deficit, now at its highest level as a percent of economic output since World War Two, will decline relatively swiftly in the next three years as growth resumes and federal bailout programs shrink.

White House budget director Peter Orszag said the deficit was too high and cited this as a reason to pass Obama's healthcare overhaul plan, which is in trouble with lawmakers while opinion polls show it losing popular support. Democrats argue that the \$1 trillion plan will stem the growth of healthcare costs.

"I know that there will be some who say this report proves that we cannot afford health reform. I think that has it backward," Orszag told reporters on a conference call.

The debate is gaining steam as Republicans seek momentum for next year's mid-term elections, where they hope to chip away at the dominant position Obama's Democrats enjoy in both the House of Representatives and the Senate.

Congressional Democrats said the country's fiscal condition was a legacy from former Republican President George W. Bush, who cut taxes while pursuing wars in Iraq and Afghanistan.

They also said spending on retirement and health benefits must be put under control as millions of Baby Boomers retire.

"Today's budget numbers send a clear signal that the time for putting off tough choices is over and the time to act is now," said Senate Budget Committee Chairman Kent Conrad, a Democrat.

NEAR-TERM FORECASTS SIMILAR

The White House forecasts a record \$1.58 trillion deficit in fiscal 2009, matching the numbers of the CBO, while it shows the deficit at \$1.5 trillion in 2010, a touch higher than the \$1.48 trillion projected by CBO.

The estimates for the current fiscal year were reduced from earlier forecasts because of lower anticipated spending on financial bailout programs as markets have stabilized.

The White House has withdrawn a \$250 billion "placeholder" budget request, while the CBO estimates that actual TARP outlays this year will be \$203 billion less than anticipated.

But both estimates show annual deficits staying above \$500 billion every year until 2019, compared with a then-record \$459 billion last year. The White House shows the gap



The budget news was overshadowed by Obama's surprise announcement on Tuesday to renominate Ben Bernanke to a second four-year term as Federal Reserve chairman, a move seen as aiming for continuity at the central bank during a tentative stage of recovery.

"I'm stunned at how hard they have worked to bury this," Holtz-Eakin said of the White House's budget estimate timing.

DIFFERING ASSUMPTIONS

The CBO and OMB typically end up with different numbers because of differing accounting methods and variations in key assumptions. The CBO employs a baseline method that only takes into account policies that have already become law. [ID:nN25208016]

The administration's forecasts can reflect the economic impact of policies it hopes to implement, even if they have not yet been approved by lawmakers.

For example, the CBO assumes there would be no "patch" for the Alternative Minimum Tax, meaning millions more Americans would have to pay higher taxes even though Congress has agreed to a temporary reprieve every year to prevent this happening. CBO also assumes Bush's tax cuts will expire at the end of 2010.

Had the White House used the CBO's methods it would have arrived at a much lower 10-year deficit figure of \$6.3 trillion, the congressional budget experts said. Conversely, a CBO estimate built on the White House's methods would likely reach a higher figure than the administration's \$9 trillion.

Orszag said that the White House numbers also assumed that some of the Bush tax cuts would be extended. Obama has pledged not to raise taxes on U.S. households earning less than \$250,000 a year.

(Writing by David Lawder, Editing by Vicki Allen)

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