US debt to hit $20 trillion by 2020

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Forecasts published this week by the Obama administration and the Congressional Budget Office (CBO) estimate that the US national debt will nearly double over the next 10 years to about $20 trillion.

The White House anticipates that cumulative annual deficits will result in $9 trillion in additional debt, an increase of $2 trillion over an estimate it made in February, while the CBO predicts $7.1 trillion in new debt for the same period. The current national debt stands at over $11 trillion.

The Obama administration, politicians of both major parties and media commentators immediately seized on the forecasts to step up demands for major cuts in social spending, especially for Medicare, Medicaid and Social Security, while disregarding costly fiscal burdens such as the Pentagon budget, the wars in Iraq and Afghanistan, Bush-era tax cuts for the wealthy, and the multi-trillion-dollar bailout of the finance industry.

As the White House Office of Management and Budget (OMB) and CBO forecasts make clear, these policies have combined with the economic slump to trigger a grave fiscal crisis for the US.

This year's deficit, $1.58 trillion, is 11.2 percent of the nation's gross domestic product (GDP), the largest deficit as a proportion of GDP since 1945, the last year of World War II. For the fiscal year 2010, borrowing will have to provide 40 percent of all government revenue.

The economic crisis has reduced tax revenues by 17 percent, a sharper decline than any other year since 1932, the nadir of the Great Depression.

Income tax collections have been decimated by unemployment. In the same report, the OMB predicted unemployment will surpass 10 percent by year's end and remain high. The CBO said the jobless rate will be close to 10 percent even at the end of 2010 and will still be at 8 percent at the close of 2011.

By 2019, the national debt will increase to nearly 70 percent of GDP, up from 48 percent this year, the White House predicts. The same year, the deficit will be equivalent to 5.1 percent of GDP. Economists consider deficits higher than 3 percent of GDP to be unsustainable. Not a single budget will hit that mark over the next decade, according to the forecasts.

The differences between the White House and CBO figures are based largely on the question of whether or not the tax cuts for the wealthy enacted under President George W. Bush will be rescinded. The CBO, which bases its estimates on existing legislation, assumes that the tax cuts will expire in 2011 as currently required by law. The Obama forecast presumes, on the other hand, that those tax cuts will remain largely in place—hence its higher budget deficit predictions.

If the CBO had taken into account the perpetuation of the Bush tax cuts—which Obama campaigned against in his run for the presidency—its deficit estimates would likely have been significantly higher than those of the Obama administration, according to analysts.

The White House forecast is based on the assumption that the economy will grow at a rate of 2 percent in 2010, achieve rapid growth of 3.8 percent in 2011, and rise to over 4 percent from 2012 through 2014, measured by GDP. If these rates are not realized—the latter figures are substantially higher than average annual growth since 1947—long-term budget deficits will become significantly worse.

The Obama administration and congressional leaders of both parties responded to the new data by proclaiming that they demonstrate the unsustainability of Medicare and Medicaid spending (the health insurance systems for the elderly and poor, respectively) and spending on Social Security, the payroll tax-funded government pension system enacted during the Great Depression.

Peter Orszag, Obama's director of the OMB, pinned blame for the deficits on Medicare and Medicaid, calling them "the key driver of our long-term deficits." Orszag called for "serious steps to put our nation back on a sustainable fiscal path." The OMB also noted that Obama "is committed to addressing the shortfall in Social Security system."

Federal Reserve Chairman Ben Bernanke, whom Obama renominated to head the US central banking system the same day as the budget forecasts came out, has in recent months stepped up his calls for major reductions in entitlement programs. In Congressional testimony in 2007, even before the financial crisis, Bernanke attributed the declining fiscal position of the US to social spending.

"Addressing the country's fiscal problems will take persistence and a willingness to make difficult choices," he said. "In the end, the fundamental decision that the Congress, the Administration, and the American people must confront is how large a share of the nation's economic resources to devote

to federal government programs, including transfer programs such as Social Security, Medicare, and Medicaid."

Democrats joined with Republicans in proclaiming that the new data suggests that health care legislation will have to be less costly, with any vaguely palliative measures likely to be dumped.

"Both sides acknowledged... the debt projections will likely force Democrats to find new real savings in their health-care bills or risk defeat," wrote the *Wall Street Journal*. Reuters reported congressional Democrats saying that "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 Kent Conrad, the Democratic chairman of the Senate Budget Committee.

The Obama administration, whose ten-year budget already takes into account $622 billion in funding cuts to Medicare and Medicaid, is promoting the false notion that social spending is primarily responsible for the deficits and the economic crisis, and that therefore working people must shoulder the burden of spending cuts.

In fact, of the $700 billion increase in spending for the current fiscal year over the previous year, the CBO estimates that about $424 billion was spent on the bailout of Wall Street through the Troubled Asset Relief Program (TARP) and the rescue of the mortgage lending giants Fannie Mae and Freddie Mac, while only $115 billion came through Obama's stimulus spending.

The total allocation to Wall Street is practically inestimable, but the special inspector general for the Troubled Asset Relief Plan (SIGTARP), Neil Barofsky, has said that among all of its financial stabilization programs, the federal government is on the line for as much as $23.7 trillion—$3.7 trillion more than the total national debt the White House is predicting for 2020.

The US spends far more funding its military, war, and spy operations than it does on Medicare and Medicaid. In 2009, for example, the federal government spent a combined $632 billion on Medicare and Medicaid, while it spent $822 billion on defense spending, "the war on terror," and the wars in Iraq and Afghanistan. The US has spent almost $903 billion on the two wars since 2001.

Another expenditure that will eclipse spending on entitlements in the coming years is the interest the US must pay to service its debt. In 2008, the US paid $451 billion in interest on the national debt. A significant proportion of these interest payments find their way to the major banks that have been bailed out by US taxpayers over the past year.

In every respect, the Obama administration is carrying on a class war policy against workers. Obama has increased funding for the military and the wars in Iraq and Afghanistan, and he has repeatedly promised he will do "whatever it takes" to cover the gambling debts of the Wall Street finance houses. These expenditures are taken for granted, and will continue, as will a tax regime that expands the personal fortunes of a thin layer of the extremely rich.

Obama's efforts to resolve the budget crisis will overwhelmingly target spending that benefits the working class.

Even so, the long-term ability of the US government to finance its debts is subject to increasing doubt, placing pressure on the dollar and its status as the world reserve currency, which has helped the US to sustain enormous trade deficits.

The central banks of China, Japan, and a number of other nations buy US government-issued securities in order to sustain US purchasing power for their exports. At the end of June, China held over $776 billion in US Treasury securities; Japan over $711 billion.

While any shift away from the US dollar is fraught with incalculable dangers for its biggest foreign holders, the insolvency of the US state and, more fundamentally, American capitalism, is causing the subject to be mooted with increasing regularity.

On Wednesday, French President Nicolas Sarkozy reiterated demands that a new global reserve currency be created. "The political and economic reality of a multi-polar world will eventually have to be transmitted on the monetary level," Sarkozy said from Elysée Palace. Similar calls have been made by leaders representing China, Russia and Brazil, among other states.

The demands of foreign creditors and mounting pressure on the dollar are further propelling the US ruling class attack on health care, retirement, and other forms of social spending.