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YAHOO! NEWS

Bernanke: Budget action needed before "storm"

By Mark Felsenthal

2 hours, 1 minute ago

Federal Reserve Chairman Ben Bernanke bluntly warned the U.S. Congress on Thursday that failure to act soon to deal with the budgetary strains posed by an aging U.S. population could lead to serious economic harm.

"We are experiencing what seems likely to be the calm before the storm," Bernanke told the Senate Budget Committee as he acknowledged projections that the U.S. budget deficit could hold steady or even narrow in the near-term.

"However, if early and meaningful action is not taken, the U.S. economy could be seriously weakened, with future generations bearing much of the cost," he added, citing worrisome long-term projections on the cost of programs such as Social Security and Medicare.

"The longer we wait, the more severe, the more draconian, the more difficult the adjustments are going to be," Bernanke cautioned as he answered questions before the panel.

The Fed chairman did not discuss the outlook for interest rates in his testimony, the first he has delivered since Democrats took control of Congress after November elections. He is expected to testify on Fed policy on February 14-15.

Bernanke also hewed closely to a previous pledge to remain neutral in Washington budget policy debates, steering clear of specific advice on how Congress might meet or lower the projected costs of retirement and health-care programs even as he warned of the risks of inaction.

"Dealing with the resulting fiscal strains will pose difficult choices for the Congress, the administration, and the American people," Bernanke said.

"VICIOUS CYCLE"

Bernanke cited projections by the Congressional Budget Office that showed spending on entitlement programs would reach about 15 percent of U.S. gross domestic product by 2030, a size he said risked fueling an ever-growing mountain of debt.

"A vicious cycle may develop in which large deficits lead to rapid growth in debt and interest payments, which in turn adds to subsequent deficits," Bernanke said.

"Ultimately, this expansion of debt would spark a fiscal crisis, which could be addressed only by very sharp spending cuts or tax increases, or both," he added.

The Fed chief said whatever budget decisions were taken, tax rates would need to be set at a level that achieved "an appropriate balance of spending and revenues in the long run."

Bernanke said advocates of lower taxes would have to accept lower spending on entitlement programs. Likewise, proponents of more-expansive government programs must recognize the need for higher taxes brought about by higher spending, he added.

"Unfortunately, economic growth alone is unlikely to solve the nation's impending fiscal problems," he said.

President George W. Bush has also warned of the risks of inaction but a plan he offered to shore-up Social Security by allowing workers to invest retirement accounts in stocks and bonds was rejected by Democrats, who argued it would undermine retirement security.

Trustees for the retirement program said last year Social Security would exhaust its assets in 2040, while the trust fund for Medicare, which covers retiree health-care costs, would run dry in just 12 years.

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The Federal Reserve Board

Testimony of Chairman Ben S. Bernanke

Long-term fiscal challenges facing the United States
Before the Committee on the Budget, U.S. Senate
January 18, 2007

Chairman Conrad, Senator Gregg, and other members of the Committee, I am pleased to be here to offer my views on the federal budget and related issues. At the outset, I should underscore that I speak only for myself and not necessarily for my colleagues at the Federal Reserve.

As you know, the deficit in the unified federal budget declined for a second year in fiscal year 2006, falling to $248 billion from $319 billion in fiscal 2005. As was the case in the preceding year, the improvement in 2006 was primarily the result of solid growth in tax receipts, especially in collections of personal and corporate income taxes. Federal government outlays in fiscal 2006 were 20.3 percent of nominal gross domestic product (GDP), receipts were 18.4 percent of GDP, and the deficit (equal to the difference of the two) was 1.9 percent of GDP. These percentages are close to their averages since 1960. The on-budget deficit, which differs from the unified budget deficit primarily in excluding receipts and payments of the Social Security system, was $434 billion, or 3.3 percent of GDP, in fiscal 2006.[1] As of the end of fiscal 2006, federal government debt held by the public, which includes holdings by the Federal Reserve but excludes those by the Social Security and other trust funds, amounted to about 37 percent of one year's GDP.

Official projections suggest that the unified budget deficit may stabilize or moderate further over the next few years. Unfortunately, we are experiencing what seems likely to be the calm before the storm. In particular, spending on entitlement programs will begin to climb quickly during the next decade. In fiscal 2006, federal spending for Social Security, Medicare, and Medicaid together totaled about 40 percent of federal expenditures, or roughly 8-1/2 percent of GDP.[2] In the most recent long-term projections prepared by the Congressional Budget Office (CBO), these outlays are projected to increase to 10-1/2 percent of GDP by 2015, an increase of about 2 percentage points of GDP in less than a decade. By 2030, according to the CBO, they will reach about 15 percent of GDP.[3] As I will discuss, these rising entitlement obligations will put enormous pressure on the federal budget in coming years.

The large projected increases in future entitlement spending have two principal sources. First, like many other industrial countries, the United States has entered what is likely to be a long period of demographic transition, the result both of the reduction in fertility that followed the post-World War II baby boom and of ongoing increases in life expectancy. Longer life expectancies are certainly to be welcomed. But they are likely to lead to longer periods of retirement in the future, even as the growth rate of the workforce declines. As a consequence of the demographic trends, the number of people of retirement age will grow relative both to the population as a whole and to the number of potential workers. Currently, people 65 years and older make up about 12 percent of the U.S. population, and there are about five people between the ages of 20 and 64 for each person 65 and older. According to

the intermediate projections of the Social Security Trustees, in 2030 Americans 65 and older will constitute about 19 percent of the U.S. population, and the ratio of those between the ages of 20 and 64 to those 65 and older will have fallen to about 3.

Although the retirement of the baby boomers will be an important milestone in the demographic transition--the oldest baby boomers will be eligible for Social Security benefits starting next year--the change in the nation's demographic structure is not just a temporary phenomenon related to the large relative size of the baby-boom generation. Rather, if the U.S. fertility rate remains close to current levels and life expectancies continue to rise, as demographers generally expect, the U.S. population will continue to grow older, even after the baby-boom generation has passed from the scene. If current law is maintained, that aging of the U.S. population will lead to sustained increases in federal entitlement spending on programs that benefit older Americans, such as Social Security and Medicare.

The second cause of rising entitlement spending is the expected continued increase in medical costs per beneficiary. Projections of future medical costs are fraught with uncertainty, but history suggests that--without significant changes in policy--these costs are likely to continue to rise more quickly than incomes, at least for the foreseeable future. Together with the aging of the population, ongoing increases in medical costs will lead to a rapid expansion of Medicare and Medicaid expenditures.

Long-range projections prepared by the CBO vividly portray the potential effects on the budget of an aging population and rapidly rising health care costs. The CBO has developed projections for a variety of alternative scenarios, based on different assumptions about the evolution of spending and taxes. The scenarios produce a wide range of possible budget outcomes, reflecting the substantial uncertainty that attends long-range budget projections.[4] However, the outcomes that appear most likely, in the absence of policy changes, involve rising budget deficits and increases in the amount of federal debt outstanding to unprecedented levels. For example, one plausible scenario is based on the assumptions that (1) federal retirement and health spending will follow the CBO's intermediate projection; (2) defense spending will drift down over time as a percentage of GDP; (3) other non-interest spending will grow roughly in line with GDP; and (4) federal revenues will remain close to their historical share of GDP--that is, about where they are today.[5] Under these assumptions, the CBO calculates that, by 2030, the federal budget deficit will approach 9 percent of GDP--more than four times greater as a share of GDP than the deficit in fiscal year 2006.

A particularly worrisome aspect of this projection and similar ones is the implied evolution of the national debt and the associated interest payments to government bondholders. Minor details aside, the federal debt held by the public increases each year by the amount of that year's unified deficit. Consequently, scenarios that project large deficits also project rapid growth in the outstanding government debt. The higher levels of debt in turn imply increased expenditures on interest payments to bondholders, which exacerbate the deficit problem still further. Thus, a vicious cycle may develop in which large deficits lead to rapid growth in debt and interest payments, which in turn adds to subsequent deficits. According to the CBO projection that I have been discussing, interest payments on the government's debt will reach 4-1/2 percent of GDP in 2030, nearly three times their current size relative to national output. Under this scenario, the ratio of federal debt held by the public to GDP would climb from 37 percent currently to roughly 100 percent in 2030 and would continue to grow exponentially after that. The only time in U.S. history that the debt-to-GDP ratio

has been in the neighborhood of 100 percent was during World War II. People at that time understood the situation to be temporary and expected deficits and the debt-to-GDP ratio to fall rapidly after the war, as in fact they did. In contrast, under the scenario I have been discussing, the debt-to-GDP ratio would rise far into the future at an accelerating rate. Ultimately, this expansion of debt would spark a fiscal crisis, which could be addressed only by very sharp spending cuts or tax increases, or both.[6]

The CBO projections, by design, ignore the adverse effects that such high deficits would likely have on economic growth. But if government debt and deficits were actually to grow at the pace envisioned by the CBO's scenario, the effects on the U.S. economy would be severe. High rates of government borrowing would drain funds away from private capital formation and thus slow the growth of real incomes and living standards over time. Some fraction of the additional debt would likely be financed abroad, which would lessen the negative influence on domestic investment; however, the necessity of paying interest on the foreign-held debt would leave a smaller portion of our nation's future output available for domestic consumption. Moreover, uncertainty about the ultimate resolution of the fiscal imbalances would reduce the confidence of consumers, businesses, and investors in the U.S. economy, with adverse implications for investment and growth.

To some extent, strong economic growth can help to mitigate budgetary pressures, and all else being equal, fiscal policies that are supportive of growth would be beneficial. Unfortunately, economic growth alone is unlikely to solve the nation's impending fiscal problems. Economic growth leads to higher wages and profits and thus increases tax receipts, but higher wages also imply increased Social Security benefits, as those benefits are tied to wages. Higher incomes also tend to increase the demand for medical services so that, indirectly, higher incomes may also increase federal health expenditures. Increased rates of immigration could raise growth by raising the growth rate of the labor force. However, economists who have looked at the issue have found that even a doubling in the rate of immigration to the United States, from about 1 million to 2 million immigrants per year, would not significantly reduce the federal government's fiscal imbalance.[7]

The prospect of growing fiscal imbalances and their economic consequences also raises essential questions of intergenerational fairness.[8] As I have noted, because of increasing life expectancy and the decline in fertility, the number of retirees that each worker will have to support in the future--either directly or indirectly through taxes paid to support government programs--will rise significantly. To the extent that federal budgetary policies inhibit capital formation and increase our net liabilities to foreigners, future generations of Americans will bear a growing burden of the debt and experience slower growth in per-capita incomes than would otherwise have been the case.

An important element in ensuring that we leave behind a stronger economy than we inherited, as did virtually all previous generations in this country, will be to move over time toward fiscal policies that are sustainable, efficient, and equitable across generations. Policies that promote private as well as public saving would also help us leave a more productive economy to our children and grandchildren. In addition, we should explore ways to make the labor market as accommodating as possible to older people who wish to continue working, as many will as longevity increases and health improves.

Addressing the country's fiscal problems will take persistence and a willingness to make difficult choices. 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. Crucially, whatever size of government is chosen, tax rates must ultimately be set at a level sufficient to achieve an appropriate balance of spending and revenues in the long run. Thus, members of the Congress who put special emphasis on keeping tax rates low must accept that low tax rates can be sustained only if outlays, including those on entitlements, are kept low as well. Likewise, members who favor a more expansive role of the government, including relatively more-generous benefits payments, must recognize the burden imposed by the additional taxes needed to pay for the higher spending, a burden that includes not only the resources transferred from the private sector but also any adverse economic incentives associated with higher tax rates.

Achieving fiscal sustainability will require sustained efforts and attention over many years. As an aid in charting the way forward, the Congress may find it useful to set some benchmarks against which to gauge progress toward key budgetary objectives. Because no single statistic fully describes the fiscal situation, the most effective approach would likely involve monitoring a number of fiscal indicators, each of which captures a different aspect of the budget and its economic impact. The unified budget deficit, projected forward a certain number of years, is an important measure that is already included in the congressional budgeting process. However, the unified budget deficit does not fully capture the fiscal situation and its effect on the economy, for at least two reasons.

First, the budget deficit by itself does not measure the quantity of resources that the government is taking from the private sector. An economy in which the government budget is balanced but in which government spending equals 20 percent of GDP is very different from one in which the government's budget is balanced but its spending is 40 percent of GDP, as the latter economy has both higher tax rates and a greater role for the government. Monitoring current and prospective levels of total government outlays relative to GDP or a similar indicator would help the Congress ensure that the overall size of the government relative to the economy is consistent with members' views and preferences.

Second, the annual budget deficit reflects only near-term financing needs and does not capture long-term fiscal imbalances. As the most difficult long-term budgetary issues are associated with the growth of entitlement spending, a comprehensive approach to budgeting would include close attention to measures of the long-term solvency of entitlement programs, such as long-horizon present values of unfunded liabilities for Social Security and Medicare.

To summarize, because of demographic changes and rising medical costs, federal expenditures for entitlement programs are projected to rise sharply over the next few decades. Dealing with the resulting fiscal strains will pose difficult choices for the Congress, the Administration, and the American people. However, if early and meaningful action is not taken, the U.S. economy could be seriously weakened, with future generations bearing much of the cost. The decisions the Congress will face will not be easy or simple, but the benefits of placing the budget on a path that is both sustainable and meets the nation's long-run needs would be substantial.

Thank you again for allowing me to comment on these important issues. I would be glad to take your questions.

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April 6, 2007

Editorial

An iPod for every kid? Are they !#$!ing idiots?

The Detroit News

We have come to the conclusion that the crisis Michigan faces is not a shortage of revenue, but an excess of idiocy. Facing a budget deficit that has passed the $1 billion mark, House Democrats Thursday offered a spending plan that would buy a MP3 player or iPod for every school child in Michigan.

No cost estimate was attached to their hare-brained idea to "invest" in education. Details, we are promised, will follow.

The Democrats, led by their increasingly erratic speaker Andy Dillon of Redford Township, also pledge $100 million to make better downtowns.

Their plan goes beyond cluelessness. Democrats are either entirely indifferent to the idea that extreme hard times demand extreme belt tightening, or they are bone stupid. We lean toward the latter.

We say that because the House plan also keeps alive, again without specifics, the promise of tax hikes.

The range of options, according to Rep. Steve Tobocman, D-Detroit, includes raising the income tax, levying a 6 percent tax on some services, and taxing junk food and soda.

We wonder how financially strained Michigan residents will feel about paying higher taxes to buy someone else's kid an iPod.

That they would include such frivolity in a crisis budget plan indicates how tough it will be to bring real spending reform to Michigan.

Senate Republicans issued a plan a week ago that eliminates the deficit with hard spending cuts. Now their leader, Mike Bishop of Rochester Hills, is sounding wobbly, suggesting he might compromise on a tax hike.

We hope Bishop is reading the polls that say three-quarters of Michigan residents oppose higher taxes.

There are few things in the House budget outline from which to forge a compromise.

For example, Dillon says he would shift the burden of business taxes to companies that operate in Michigan, but don't have a facility here. The certain outcome of that plan is to drive even more businesses out of Michigan.

About all we see of merit is a call for government consolidation and a demand that state employees contribute more to their retirement benefits -- which is no more than House Democrats suggested for future state lawmakers a few weeks ago.

We find it ironic that the Democrats are proposing floating $5 billion in revenue bonds to pay for retiree health care, when Gov. Jennifer Granholm vetoed a nearly identical plan by Oakland County because it would cost the state money.

Instead of advocating cost-saving changes in public school teacher pension and health plans, Dillon suggests more study. There have been plenty of studies of the issue, with the conclusion being that hundreds of millions of dollars could be saved through reforms. Michigan needs action, not more study committees.

Dillon also proposes that the state cover 50 percent of the cost of catastrophic health insurance for everyone in the place, but once again doesn't specify a funding source.

Stop the stupidity. Michigan can't tax or spend its way out of this economic catastrophe.

The only responsible option is to bring spending in line with current revenues. The mission must be to expand the tax base, rather than to expand taxes, by crafting a budget that encourages growth.

We won't get there by wasting money on early Christmas presents for Michigan kids.

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YAHOO! NEWS

Back to Story - Help

2006 personal savings drop to 74-yr. low

Associated Press

By MARTIN CRUTSINGER, AP Economics Writer

34 minutes ago

People once again spent everything they made and then some last year, pushing the personal savings rate to the lowest level since the Great Depression more than seven decades ago.

The Commerce Department reported Thursday that the savings rate for all of 2006 was a negative 1 percent, meaning that not only did people spend all the money they earned but they also dipped into savings or increased borrowing to finance purchases. The 2006 figure was lower than a negative 0.4 percent in 2005 and was the poorest showing since a negative 1.5 percent savings rate in 1933 during the Great Depression.

For December, consumer spending rose a solid 0.7 percent, the best showing in five months, while incomes rose by 0.5 percent, both figures matching Wall Street expectations.

In other news, the Labor Department reported that the number of newly laid off workers filing claims for unemployment benefits dropped by 20,000 last week to 307,000. That improvement pushed the four-week average for claims to the lowest level in a year, indicating that the labor market remains healthy.

The savings rate has been negative for an entire year only four times in history — in 2005 and 2006 and in 1933 and 1932. However, the reasons for the decline in the savings rate were vastly different during the two periods.

During the Great Depression when one-fourth of the labor force was without a job, people dipped into savings in an effort to meet the basic necessities of shelter and clothing.

Economists have put forward various reasons to explain the current lack of savings. These range from a feeling on the part of some people that they do not need to save because of the run-up in their investments such as homes and stock portfolios to an effort by many middle-class wage earners to maintain their current lifestyles even though their wage gains have been depressed by the effects of global competition.

Whatever the reason for the low savings, economists warn that it the phenomenon exists at a particularly bad time with 78 million baby boomers approaching retirement age. Instead of building up savings to use during retirement, baby boomers are continuing to spend all their earnings.

The savings rate is computed by taking the amount of personal income left after taxes are paid, an amount known as disposable income and subtracting the amount of spending. Since the figure has dipped into negative territory, it means consumers are spending all of disposable income and then some.

For December, the savings rate edged down to a negative 1.2 percent, compared to a negative 1 percent in November. The savings rate has been in negative territory for 21 consecutive months.

The 0.7 percent rise in personal spending was the best showing since a similar gain in July. It followed increases of 0.5 percent in November and 0.3 percent in October and reflected solid spending by consumers during the Christmas shopping season.

Consumer spending posted a solid rebound in the final three months of the year, helping to lift overall economic growth to a rate of 3.5 percent during that period, up significantly after lackluster growth rates in the spring and fall.

Incomes were up 0.5 percent in December, the best showing since a similar increase in September.

On the inflation front, a gauge tied to consumer spending that is preferred by the Federal Reserve edged up by 0.1 percent in December. This gauge, which excludes volatile food and energy prices, was up 2.2 percent over the past 12 months ending in December, still above the Fed's comfort zone of 1 percent to 2 percent.

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Major Fiscal Exposures

($ trillions)

	2000	2006	% Increase
• Explicit liabilities	**$6.9**	**$10.4**	**52**
• Publicly held debt • Military & civilian pensions & retiree health • Other			
• Commitments & contingencies	**0.5**	**1.3**	**140**
• E.g., PBGC, undelivered orders			
• Implicit exposures	**13.0**	**38.8**	**197**
• Future Social Security benefits	3.8	6.4	
• Future Medicare Part A benefits	2.7	11.3	
• Future Medicare Part B benefits	6.5	13.1	
• Future Medicare Part D benefits	--	7.9	
Total	**$20.4**	**$50.5**	**147**

Source: 2000 and 2006 Financial Report of the United States Government.

Note: Totals and percent increases may not add due to rounding. Estimates for Social Security and Medicare are at present value as of January 1 of each year and all other data are as of September 30.

How Big is Our Growing Fiscal Burden?

This fiscal burden can be translated and compared as follows:

Total –major fiscal exposures	**$50.5 trillion**
Total household net worth[1]	**$53.3 trillion**
Burden/Net worth ratio	**95 percent**
Burden[2]	
Per person	**$170,000**
Per full-time worker	**$400,000**
Per household	**$440,000**
Income	
Median household income[3]	**$46,326**
Disposable personal income per capita[4]	**$31,519**

Source: GAO analysis.

Notes: (1) Federal Reserve Board, Flow of Funds Accounts, Table B.100, 2006:Q2 (Sept. 19, 2006); (2) Burdens are calculated using estimated total U.S. population as of 9/30/06, from the U.S. Census Bureau; full-time workers reported by the Bureau of Economic Analysis, in NIPA table 6.5D (Aug. 2, 2006); and households reported by the U.S. Census Bureau, in Income, Poverty, and Health Insurance Coverage in the United States: 2005 (Aug. 2006); (3) U.S. Census Bureau, Income, Poverty, and Health Insurance Coverage in the United States: 2005 (Aug. 2006); and (4) Bureau of Economic Analysis, Personal Income and Outlays: October 2006, table 2, (Nov. 30, 2006).

APPROVED: NATIONAL DEBT

$9,000,000,000,000.00

DRUDGE REPORT

Footnotes

1. Excluding the operations of both Social Security and Medicare Part A, the budget deficit in fiscal year 2006 was $459 billion, or 3.5 percent of GDP. Like Social Security, Medicare Part A pays benefits out of, and receives a dedicated stream of revenues into, a trust fund. Return to text

2. Net of Medicare premiums paid by beneficiaries and amounts paid by states from savings on Medicaid prescription drug costs, these outlays were equal to 8 percent of GDP. Return to text

3. These projections are for the CBO's intermediate spending path. Consistent with the assumptions used by the Medicare trustees, this path is based on the assumption that, over the long run, per beneficiary health expenditures will increase at a rate that is 1 percentage point per year greater than the growth rate of per capita GDP. Over the past twenty-five years, however, per beneficiary Medicare spending has actually exceeded per capita GDP growth by about 2-1/2 percentage points per year. Thus, a significant slowing in the growth of medical costs per beneficiary will be needed to keep expenditures close to those projected in the CBO's intermediate-spending scenario. See Congressional Budget Office (2005), *The Long-Term Budget Outlook*, December, www.cbo.gov/ftpdocs/69xx/doc6982/12-15-LongTermOutlook.pdf (1.0 MB PDF). Return to text

4. For example, in 2030, five of the six scenarios imply deficits ranging from 1-1/2 percent of GDP to nearly 14 percent of GDP; a sixth scenario is capable of producing a surplus, but it relies on the confluence of a very favorable set of assumptions. Return to text

5. CBO (2005), *The Long-Term Budget Outlook*, pp. 5-13 and 48-49. Return to text

6. To give a sense of the magnitudes involved, suppose--for the sake of illustration only--that the deficit projected for 2030 in the CBO scenario were to be eliminated entirely in that year, half through reductions in discretionary spending and half through increases in non-payroll taxes. (Of course, in reality the fiscal adjustment would likely not occur in one year, but this hypothetical example is useful for showing the magnitude of the problem.) This fiscal adjustment would involve a cut in discretionary spending (including defense) of nearly 80 percent (relative to its baseline level) and a rise in non-payroll taxes of more than 35 percent. The need for such painful measures could be diminished by beginning the process of fiscal adjustment much earlier, thereby avoiding some of the buildup in outstanding debt and the associated interest burden. Return to text

7. CBO (2005), *The Long-Term Budget Outlook*, p. 3. Return to text

8. I discussed this issue in Ben S. Bernanke (2006), "The Coming Demographic Transition: Will We Treat Future Generations Fairly?", speech delivered before the Washington Economic Club, Washington, October 4, www.federalreserve.gov/boarddocs/speeches/2006/20061004/default.htm. Return to text

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2007 Testimony

National debt grows $1 million a minute

By TOM RAUM, Associated Press Writer
Mon Dec 3, 6:55 AM ET

Like a ticking time bomb, the national debt is an explosion waiting to happen. It's expanding by about $1.4 billion a day — or nearly $1 million a minute.

What's that mean to you?

It means almost $30,000 in debt for each man, woman, child and infant in the United States.

Even if you've escaped the recent housing and credit crunches and are coping with rising fuel prices, you may still be headed for economic misery, along with the rest of the country. That's because the government is fast straining resources needed to meet interest payments on the national debt, which stands at a mind-numbing $9.13 trillion.

And like homeowners who took out adjustable-rate mortgages, the government faces the prospect of seeing this debt — now at relatively low interest rates — rolling over to higher rates, multiplying the financial pain.

So long as somebody is willing to keep loaning the U.S. government money, the debt is largely out of sight, out of mind.

But the interest payments keep compounding, and could in time squeeze out most other government spending — leading to sharply higher taxes or a cut in basic services like Social Security and other government benefit programs. Or all of the above.

A major economic slowdown, as some economists suggest may be looming, could hasten the day of reckoning.

The national debt — the total accumulation of annual budget deficits — is up from $5.7 trillion when President Bush took office in January 2001 and it will top $10 trillion sometime right before or right after he leaves in January 2009.

That's $10,000,000,000,000.00, or one digit more than an odometer-style "national debt clock" near New York's Times Square can handle. When the privately owned automated clock was activated in 1989, the national debt was $2.7 trillion.

It only gets worse.

Over the next 25 years, the number of Americans aged 65 and up is expected to almost double. The work population will shrink and more and more baby boomers will be drawing Social Security and Medicare benefits, putting new demands on the government's resources.

These guaranteed retirement and health benefit programs now make up the largest component of federal spending. Defense is next. And moving up fast in third place is interest on the national debt, which totaled $430 billion last year.

Aggravating the debt picture: the wars in Iraq and Afghanistan, which the nonpartisan Congressional Budget Office estimates could cost $2.4 trillion over the next decade

Despite vows in both parties to restrain federal spending, the national debt as a percentage of the U.S. Gross Domestic Product has grown from about 35 percent in 1975 to around 65 percent today. By historical standards, it's not proportionately as high as during World War II — when it briefly rose to 120 percent of GDP, but it's a big chunk of liability.

"The problem is going forward," said David Wyss, chief economist at Standard and Poors, a major credit-rating agency.

"Our estimate is that the national debt will hit 350 percent of the GDP by 2050 under unchanged policy. Something has to change, because if you look at what's going to happen to expenditures for entitlement programs after us baby boomers start to retire, at the current tax rates, it doesn't work," Wyss said.

With national elections approaching, candidates of both parties are talking about fiscal discipline and reducing the deficit and accusing the other of irresponsible spending. But the national debt itself — a legacy of overspending dating back to the American Revolution — receives only occasional mention.

Who is loaning Washington all this money?

Ordinary investors who buy Treasury bills, notes and U.S. savings bonds, for one. Also it is banks, pension funds, mutual fund companies and state, local and increasingly foreign governments. This accounts for about $5.1 trillion of the total and is called the "publicly held" debt. The remaining $4 trillion is owed to Social Security and other government accounts, according to the Treasury Department, which keeps figures on the national debt down to the penny on its Web site.

Some economists liken the government's plight to consumers who spent like there was no tomorrow — only to find themselves maxed out on credit cards and having a hard time keeping up with rising interest payments.

"The government is in the same predicament as the average homeowner who took out an adjustable mortgage," said Stanley Collender, a former congressional budget analyst and now managing director at Qorvis Communications, a business consulting firm.

Much of the recent borrowing has been accomplished through the selling of shorter-term Treasury bills. If these loans roll over to higher rates, interest payments on the national debt could soar. Furthermore, the decline of the dollar against other major currencies is making Treasury securities less attractive to foreigners — even if they remain one of the world's safest investments.

For now, large U.S. trade deficits with much of the rest of the world work in favor of continued foreign investment in Treasuries and dollar-denominated securities. After all, the vast sums Americans pay — in dollars — for imported goods has to go somewhere. But that dynamic could change.

"The first day the Chinese or the Japanese or the Saudis say, `we've bought enough of your paper,' then the debt — whatever level it is at that point — becomes unmanageable," said Collender.

A recent comment by a Chinese lawmaker suggesting the country should buy more euros instead of dollars helped send the Dow Jones plunging more than 300 points.

The dollar is down about 35 percent since the end of 2001 against a basket of major currencies.

Foreign governments and investors now hold some $2.23 trillion — or about 44 percent — of all publicly held U.S. debt. That's up 9.5 percent from a year earlier.

Japan is first with $586 billion, followed by China ($400 billion) and Britain ($244 billion). Saudi Arabia and other oil-exporting countries account for $123 billion, according to the Treasury.

"Borrowing hundreds of billions of dollars from China and OPEC puts not only our future economy, but also our national security, at risk. It is critical that we ensure that countries that control our debt do not control our future," said Sen. George Voinovich of Ohio, a Republican budget hawk.

Of all federal budget categories, interest on the national debt is the one the president and Congress have the least control over. Cutting payments would amount to default, something Washington has never done.

Congress must from time to time raise the debt limit — sort of like a credit card maximum — or the government would be unable to borrow any further to keep it operating and to pay additional debt obligations.

The Democratic-led Congress recently did just that, raising the ceiling to $9.82 trillion as the former $8.97 trillion maximum was about to be exceeded. It was the fifth debt-ceiling increase since Bush became president in 2001.

Democrats are blaming the runup in deficit spending on Bush and his Republican allies who controlled Congress for the first six years of his presidency. They criticize him for resisting improvements in health care, education and other vital areas while seeking nearly $200 billion in new Iraq and Afghanistan war spending.

"We pay in interest four times more than we spend on education and four times what it will cost to cover 10 million children with health insurance for five years," said House Speaker Nancy Pelosi, D-Calif. "That's fiscal irresponsibility."

Republicans insist congressional Democrats are the irresponsible ones. Bush has reinforced his call for deficit reduction with vetoes and veto threats and cites a looming "train wreck" if entitlement programs are not reined in.

Yet his efforts two years ago to overhaul Social Security had little support, even among fellow Republicans.

The deficit only reflects the gap between government spending and tax revenues for one year. Not exactly how a family or a business keeps its books.

Even during the four most recent years when there was a budget surplus, 1998-2001, the national debt ranged between $5.5 trillion and $5.8 trillion.

As in trying to pay off a large credit-card balance by only making minimum payments, the overall debt might be next to impossible to chisel down appreciably, regardless of who is in the White House or which party controls Congress, without major spending cuts, tax increases or both.

"The basic facts are a matter of arithmetic, not ideology," said Robert L. Bixby, executive director of the Concord Coalition, a bipartisan group that advocates eliminating federal deficits.

There's little dispute that current fiscal policies are unsustainable, he said. "Yet too few of our elected leaders in Washington are willing to acknowledge the seriousness of the long-term fiscal problem and even fewer are willing to put it on the political agenda."

Polls show people don't like the idea of saddling future generations with debt, but proposing to pay down the national debt itself doesn't move the needle much.

"People have a tendency to put some of these longer term problems out of their minds because they're so pressed with more imminent worries, such as wages and jobs and income inequality," said pollster Andrew Kohut of the nonpartisan Pew Research Center.

Texas billionaire Ross Perot made paying down the national debt a central element of his quixotic third-party presidential bid in 1992. The national debt then stood at $4 trillion and Perot displayed charts showing it would soar to $8 trillion by 2007 if left unchecked. He was about a trillion low.

Not long ago, it actually looked like the national debt could be paid off — in full. In the late 1990s, the bipartisan Congressional Budget Office projected a surplus of a $5.6 trillion over ten years — and calculated the debt would be paid off as early as 2006.

Former Fed chairman Alan Greenspan recently wrote that he was "stunned" and even troubled by such a prospect. Among other things, he worried about where the government would park its surplus if Treasury bonds went out of existence because they were no longer needed.

Not to worry. That surplus quickly evaporated.

Mark Zandi, chief economist at Moody's Economy.com, said he's more concerned that interest on the national debt will become unsustainable than he is that foreign countries will dump their dollar holdings — something that would undermine the value of their own vast holdings. "We're going to have to shell out a lot of resources to make those interest payments. There's a very strong argument as to why it's vital that we address our budget issues before they get measurably worse," Zandi said.

"Of course, that's not going to happen until after the next president is in the White House," he added.

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On the Net:

Treasury site listing share of national debt held by foreigners: http://www.treasury.gov/tic/mfh.txt.

The national debt to the penny: http://www.treasurydirect.gov/NP/BPDLogin?applicationnp

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