

National debt looms large over all of us

By Susan Strother Clarke
SENTINEL COLUMNIST

Is the federal budget deficit good or bad?

I put the question to **Bob Allsbrook**, chief economist at **AmSouth Corp.**

He answered "yes."

I hadn't posed a yes-no question — but getting a handle on the deficit isn't an either-or proposition.

I got to thinking about government red ink, all \$374 billion of it, after a call last week from Apopka resident **Paul Bernet**. He's on top of his finances — and thinks Uncle Sam should be, too.

"Some of us older folks, we're wanting everything, but how is the government going to pay for it?" asked Bernet, who is 75. "Most of the younger generation have debt, so they don't mind taking on more."

Bernet worries about the cost of the proposed prescription-drug coverage for Medicare, which is estimated to be \$400 billion over 10 years.

The current U.S. debt is \$6.9 trillion. We could wipe that out if every man, woman and child wrote a check for \$23,600 — not very likely.

The most recent annual budget deficit was a record. But the **Congressional Budget Office** estimates the deficit will climb to nearly \$500 billion in the current year. It has been ratcheted up by the war in Iraq, which has increased government spending, and by tax cuts, which have pushed receipts lower.

By CBO estimates, nearly \$1.8 trillion of new debt will be added before the government is back in the black in 2012. And it could get worse if the tax cuts of the current president are extended indefinitely.

On the other hand, deficits have become common in recent decades.

There were budget surpluses from 1998 to 2001, but before that the last one was in 1969.

The current deficit represents only 3 percent of the total economy. Economists say that's a more important figure than the total debt — and the current percentage is manageable. Some think it's even a good thing to run a deficit coming out of an economic recession. It means the government is trying to goose the economy — either by spending or cutting taxes.

"We can handle a deficit for a couple of years — but we don't want to see it climb for five or 10 years," said **David Scott**, an economist at the **University of Central Florida**.

The real concern is when government can't stop spending and the deficit, as a percentage of the total economy, creeps up to 6 percent.

That's where it was in the early 1980s. That creates what economists call "crowding out," meaning the government elbows other borrowers in the capital markets, pushing up short- and long-term interest rates. That hurts business owners and individuals; in 1982, mortgage rates were as high as 17 percent.

So, back to my original question: Is the deficit good or bad?

I'm with economist Allsbrook. I'd have to say yes.