

## White House set for backlash on national debt

By Edward Luce and Krishna Guha in Washington  
Published: August 24 2009 19:49 | Last updated: August 24 2009 19:49

The **Obama administration** is bracing for a political backlash on Tuesday when it issues national debt numbers showing federal debt rising by \$9,000bn over the next decade – significantly higher than the forecast it made earlier this year.

The revision, which will add \$2,000bn (€1,400bn, £1,200bn) to the White House's initial projection made in February, comes amid growing public jitters about the scale of US national debt, with one recent opinion poll showing Americans giving higher priority to reducing deficits than to reviving the economy.



Stimulus funds have paid for infrastructure, but debt may scupper a second package

### EDITOR'S CHOICE

[US suburbs become face of foreclosure](#) - Aug-24

[US health co-op plan in doubt](#) - Aug-24

[Opinion: Why the Fed should be given more powers](#) - Aug-24

[In depth: US downturn](#) - Mar-13

It also comes amid growing doubts as to whether Mr Obama has sufficient political capital to push through his \$1,000bn 10-year reform of the US healthcare system, even though the president has insisted the proposed expansion in healthcare coverage will be entirely self-funding.

Mr Obama, who has seen steadily **declining public support for healthcare reform** in the past six weeks, is expected to recalibrate his argument next week when he returns from his short **vacation in Martha's Vineyard**.

"These debt numbers are going to strongly refocus the whole debate about healthcare reform towards fiscal discipline and away from expanding coverage," says Maya McGuineas, president of the committee for a responsible federal budget. "The whole direction of the debt is going to make policy reforms of any kind increasingly difficult to achieve."

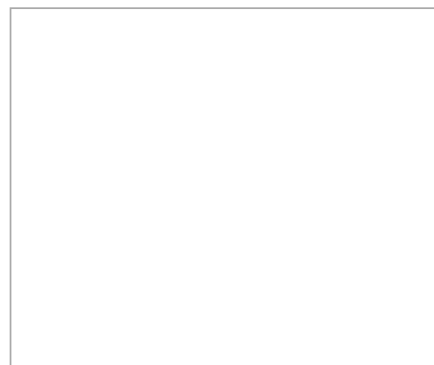
At Tuesday's mid-term budget review, the Office of Management and Budget is also expected to revise downwards this year's projected budget deficit to just under \$1,600bn, having removed a \$250bn "placeholder" it had inserted in February for a possible expansion of the banking bail-out – the troubled asset relief programme. Given the return to profitability of many banks since April, that is no longer considered necessary.

However, most of the attention is likely to focus on the longer-term picture, which will result in the near doubling of US national debt to 82 per cent of gross domestic product by 2019 – levels not seen since the second world war. Mounting concern over the economic – and even national security – implications of exploding US national debt is also likely to complicate any attempts by the Obama administration to embark on a second fiscal stimulus, which many economists say may prove necessary by 2011 as the effects of this year's \$787bn stimulus begin to wane.

According to Goldman Sachs, the need for a new stimulus will be most acutely felt in 2011 when the combination of the expiration of the tax cuts George W. Bush enacted in 2001 and 2003 and the withdrawal of the stimulus will reduce GDP growth by 1.6 per cent.

But economists worry that political concerns about the

**US budget deficit**  
CRU forecasts (\$bn)



Jobs Business for sale Contracts & tenders

SEARCH

**Futures Manager**

**Environment Agency**

**Head of Investment Banking**

**Investment Banking**

**Treasury Controller**

**Retail**

**Head of Energy Trading Compliance**

**Centrica Energy**

**RECRUITERS**

FT.com can deliver talented individuals across all industries around the world  
[Post a job now](#)

### RELATED SERVICES

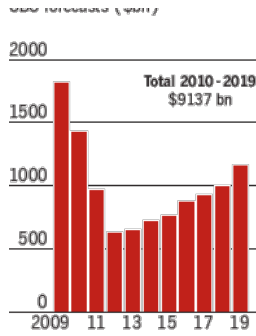
- |   |  |
|---|--|
| <a href="#">FT Bespoke Forums</a>       | <a href="#">MBA-Direct.com</a>             |
| <a href="#">Annual reports</a>          | <a href="#">FT Newspaper subscriptions</a> |
| <a href="#">Market research</a>         | <a href="#">FT Diaries</a>                 |
| <a href="#">Growth companies</a>        | <a href="#">FT Bookshop</a>                |
| <a href="#">Corporate subscriptions</a> | <a href="#">FT Conferences</a>             |
| <a href="#">Luxury Travel brochures</a> | <a href="#">FT Syndication services</a>    |
| <a href="#">Analyst Research</a>        | <a href="#">The Non-Executive Director</a> |

deficits will make this impossible. Others worry about crowding out and the risk of a back-up in real interest rates. For the time being, there is still little private sector debt issuance, so the US government faces little competition for global savings other than from other countries with large deficits. But many fear sustained large deficits will eventually push up real interest rates, crowding out private activity. If this happened too soon, it could undermine recovery; even if it came later it could undermine long-term growth prospects.

Some economists believe the growing likelihood of tax increases a few years from now to mitigate the deficit may discourage consumer spending and business investment today.

The prospect of sustained large deficits also makes it harder for the US central bank to provide further monetary stimulus. Inflation concerns have been raised by the combination of large projected deficits and unorthodox Federal Reserve actions. Foreign investors in particular worry that the Fed will end up monetising government debt over the medium term.

The Fed has no intention of doing this, but the risk that inflation expectations may rise if it keeps buying Treasuries in this context is an important reason it is not expanding its Treasury purchase programme today in spite of a forecast of low inflation and high unemployment for several years.



Source: CBO

Copyright The Financial Times Limited 2009. You may share using our article tools. Please don't cut articles from FT.com and redistribute by email or post to the web.

[Print article](#) [Email article](#) [Clip this article](#) [Order reprints](#)

[Digg](#) [reddit](#) [LinkedIn](#) [Facebook](#) [Delicious](#)  
[Mixx](#) [Propeller](#) [Yahoo! Buzz](#) [stumbleupon](#)

**MORE IN THIS SECTION**

- [US envoy confronts Karzai over Afghan poll](#)
- [US regulators launch telecoms probe](#)
- [US resists £50m VAT claim on embassy work](#)
- [Kennedy's death draws bipartisan salute](#)
- [Senator's death underscores healthcare dilemma](#)
- [US aid to Pakistan 'depleted by admin costs'](#)
- [Settlement deal close, says Israel](#)
- [The lion who knew to strike a deal](#)
- [End of the line?](#)
- [World leaders pay tribute to Kennedy](#)
- [SEC explanation on Merrill deal 'puzzling'](#)

[FT Home](#)

[Site map](#) [Contact us](#) [Help](#)

[Advertise with the FT](#) [Media centre](#) [FT Newspaper subscriptions](#) [FT Conferences](#) [FT Syndication](#) [Corporate subscriptions](#) [FT Group](#) [Careers at the FT](#)

Partner sites: [Chinese FT.com](#) [The Mergermarket Group](#) [Investors Chronicle](#) [Exec-Appointments.com](#) [Money Media](#) [The Banker](#) [fDi Intelligence](#) [MBA-Direct.com](#) [The Non-Executive Director](#)

© Copyright The Financial Times Ltd 2009. "FT" and "Financial Times" are trademarks of The Financial Times Ltd. [Privacy policy](#) [Terms](#)