Joe Zingone-A realistic economist

Planning Made Simple...

Economic Perspective February 2011 by Joseph Zingone

"If all economists were laid end to end, they would not reach a conclusion **-**
George Bernard Shaw

Let's set the story straight. We cannot grow, tax or cut benefits as a way out of our economic worries. Here is why: relying on taxes alone would raise them close to 80% for individuals and corporations. Cutting spending (excluding SS and Medicare and defense spending) would sustain about a 65% reduction in services. Sustained higher GDP growth and increased productivity it not an option either as individual income is down 4% since 2000. A combination of all three is the only answer.

2010 deficit is about $1.4 trillion this will be added to our large debt. These high debt levels threaten our prosperity and security. The interest payments alone will be staggering in the coming years. If spending continues at current levels, the debt will balloon to 24 trillion in a decade. If you ramp up some spending cuts and tax increases, the debt will be lower- not by much. It will be safe to say somewhere between 24 and 18 trillion will be a close debt estimate. Please note even with favorable assumptions and deficit-reduction measures the debt will still grow from today's numbers.

Federal Deficit vs. National Debt

Everyone is talking a lot about our federal **deficit** and to a lesser extent our national **debt**. It is important to understand the difference between the two words. The **deficit** is the difference between how much the federal government spends and how much it collects in one year. If the government earns, $2 trillion in taxes in one year but spends $3 trillion, that is a deficit of $1 trillion. In order to pay for the difference, the government has to borrow money from itself, American citizens, foreign countries, and other sources like depleting all its trust funds. The federal budget deficit for '10 was a record $1.42 trillion & $1.5 trillion for '11

The national **debt**, on the other hand, is the total amount we already owe. Every year that we borrow more money, the debt grows larger. The difference between the **deficit** and the **debt** is especially important because when politicians talk about reducing the deficit, all that really means is that our debt is not growing as fast. It does not mean we are getting out of debt.

More on this topic next issue
Excerpted from my book:
The Road You're On

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