

Federal deficit hits all-time high \$1.42 trillion

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- By Martin Crutsinger, AP Economics Writer
- On 3:40 pm EDT, Friday October 16, 2009

WASHINGTON (AP) -- The federal budget deficit has surged to an all-time high of \$1.42 trillion as the recession caused tax revenues to plunge while the government was spending massive amounts to stabilize the U.S. financial system and jump-start the economy.

The imbalance for the budget year ended Sept. 30, more than tripled last year's record. The Obama administration projects deficits will total \$9.1 trillion over the next decade unless corrective action is taken.

As a portion of the economy, the budget deficit stood at 10 percent, the highest since World War II, according to government data released Friday.

President Barack Obama has pledged to reduce the deficit once the Great Recession ends and the unemployment rate starts falling. But economists worry the government lacks the will to make the hard political choices to cut spending and raise taxes to get control of the imbalances.

For 2009, the government collected \$2.10 trillion in revenues, a 16.6 percent drop from 2008. The plunge reflected declining income tax collections as millions of Americans lost their jobs or saw their wages cut. Corporate taxes also plummeted as the recession squeezed companies' profit margins.

Government spending last year jumped to \$3.52 trillion, up 18.2 percent over 2008. The \$700 billion financial bailout fund and increased spending and tax relief from the \$787 billion economic stimulus program that Obama pushed through Congress in February drove the increase.

For September, a month when the government usually records surpluses, the deficit totaled \$46.6 billion. That's a sharp contrast to the \$45.7 billion surplus in September 2008, the last time the government's books were in the black.

In issuing the final budget figures, top administration officials said the president was determined to get control of the deficits in coming years.

"It was critical that we acted to bring the economy back from the brink earlier this year," White House budget director Peter Orszag said in a statement. "The president recognizes that we need to put the nation back on a fiscally sustainable path."

Failure to curb runaway deficits could trigger a financial train wreck that would push interest rates and inflation higher, and send the dollar crashing if foreigners suddenly started dumping their holdings of Treasury securities.

None of those problems are evident now as the worst recession since the 1930s has depressed borrowing by consumers and businesses, giving the government a break on the interest it paid this year on the record debt. Net interest payments actually fell by about \$10 billion in 2009 from 2008.

But economists worry investors will grow fearful of the nation's ability to repay all the debt unless the administration and Congress begin developing credible plans to deal with the deficit problem once the recession has ended and unemployment has begun to come down.