

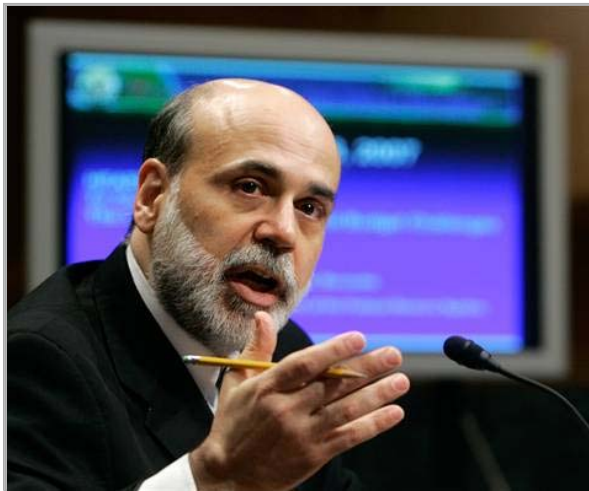
advertisement

	 <p>Special Code: 45069ZWN</p>	<p><b>SAVE</b> up to <b>64%</b> Plus, get <b>3 FREE Gifts</b></p>	<p>To Order: <a href="http://www.OmahaSteaks.com/print71">www.OmahaSteaks.com/print71</a> or call 1-877-605-0496</p>
---	---	---	--



## Bernanke warns of 'vicious cycle' in deficits

Wave of retiring boomers will put growing strain on budget, Fed chief says



Manuel Balce Ceneta / AP  
Federal Reserve Board Chairman Ben Bernanke testified Thursday before the Senate Budget Committee.

**AP** Associated Press

updated 1/18/2007 12:46:22 PM ET

WASHINGTON— Federal Reserve Chairman Ben Bernanke warned Congress Thursday that the economy could be gravely hurt if Social Security and Medicare aren't revamped and urged lawmakers to tackle the nation's thorny fiscal issues sooner rather than later.

"If early and meaningful action is not taken, the U.S. economy could be seriously weakened," Bernanke said in testimony to the Senate Budget Committee.

It marked the Fed chief's most forceful warning to date on the potential problems

facing the United States with the looming retirement of 78 million baby boomers, the oldest of whom will start retiring next year.

This huge wave of retirees will hit the U.S. budget as well as the economy, he said.

"The longer we wait, the more severe, the more draconian, the more difficult the objectives are going to be. I think the right time to start was about 10 years ago," he told lawmakers when questioned about the urgency of the situation.

Absent policy changes by Congress and the White House, rising budget deficits are likely in the years ahead to increase the amount of federal debt outstanding to unprecedented

levels.

advertisement

<p><b>Get a FREE ADT-Monitored Home Security System.*</b></p> <p>(With \$99 customer installation and purchase of ADT alarm monitoring services. See important terms and conditions below.)</p>
<p><b>Call Now! 1-877-835-8373</b></p> <p><b>SECURITY CHOICE</b> ADT Authorized Company</p> <p><b>ADT AUTHORIZED DEALER</b></p> <p><small>*\$99.00 Customer Installation Charge. 30-Month Monitoring Agreement required at \$35.99 per month (\$1,295.64). Form of payment must be by credit card or electronic charge to your checking or savings account. Offer applies to homeowners only. Local permit fees may be required. Satisfactory credit history required. Certain restrictions apply. Offer valid for new Security Choice - An ADT Authorized Dealer customers only and not on purchases from ADT Security Services, Inc. Other rate plans available. Cannot be combined with any other offer. **\$100 VISA® Gift Card Offer: \$100 VISA Gift Card is provided by Security Choice and is not sponsored by ADT Security Services. Requires mail-in redemption. Call 1-888-407-3338 for complete restrictions and redemption requirements.</small></p>

Print Powered By  FormatDynamics™

advertisement

**Get a FREE ADT-Monitored Home Security System.\*** **Call Now!**  
 (With \$99 customer installation and purchase of ADT alarm monitoring services. See important terms and conditions below.) **1-877-835-8373**

\*\$99.00 Customer Installation Charge. 36-Month Monitoring Agreement required at \$35.99 per month (\$1,295.64). Form of payment must be by credit card or electronic charge to your checking or savings account. Offer applies to homeowners only. Local permit fees may be required. Satisfactory credit history required. Certain restrictions apply. Offer valid for new Security Choice - An ADT Authorized Dealer customers only and not on purchases from ADT Security Services, Inc. Other rate plans available. Cannot be combined with any other offer. \*\*\$100 VISA® Gift Card Offer: \$100 VISA Gift Card is provided by Security Choice and is not sponsored by ADT Security Services. Requires mail-in redemption. Call 1-888-407-2338 for complete restrictions and redemption requirements.



That could propel interest rates for consumers and businesses upward, which would be a worrisome development, he said.

“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,” he said. Ultimately, a big expansion of the nation’s debt “would spark a fiscal crisis, which could be addressed only by very sharp spending cuts or tax increases or both,” Bernanke warned.

The budget deficit last year totaled \$248 billion, a four-year low. Bernanke noted the improvement but likened it to a “calm before the storm.”

Spending on entitlement programs will begin to climb quickly during the next decade, he said. Federal spending for Social Security, Medicare and Medicaid will total about 15 percent of the gross domestic product by 2030, compared to roughly 8½ percent of GDP in 2006, he said.

Forecasts call for the deficit to worsen for the 2007 budget year. The Congressional Budget Office is projecting \$286 billion in red ink, while the White House is predicting an even bigger shortfall of \$339 billion.

Bernanke said that economic growth alone is unlikely to solve the nation’s impending fiscal problems.

Fixing the problems, he said, will take

the White House to make difficult choices. It will be up to those policymakers to find the right balance between taxes and spending, he said.

The Fed chief steered away from offering specific solutions.

“In the end, the fundamental decision that 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,” he said.

President Bush wants to work on the looming insolvency of the Social Security program. But his one-time plan to add private accounts to the system, once the centerpiece of his second-term agenda, withered in 2005 after meeting resistance from Democrats and Republicans alike. Bush has tapped Treasury

advertisement

**Send flowers for any occasion**  
**Bouquets**  
 from **\$19.99** +s/h

**ProFlowers®**  
 Offer ONLY available at:  
[proflowers.com/happy](http://proflowers.com/happy)  
 or call 1.877.804.1133



Print Powered By  **FormatDynamics™**

advertisement



**HEARTLAND QUALITY**  
**OMAHA STEAKS**  
SINCE 1917

Special Code: 45069ZWN

**SAVE** up to **64%**  
Plus, get  
**3 FREE Gifts**

To Order:  
[www.OmahaSteaks.com/print71](http://www.OmahaSteaks.com/print71)  
or call 1-877-605-0496



Secretary Henry Paulson to gather ideas on how to restructure the program.

Bush wants to work with Congress on a plan to balance the budget in five years. To help bring that about, he will again delay his plan to add private accounts to Social Security.

Now that Democrats are in charge on Capitol Hill, private accounts are a nonstarter, though Bush will mention them in his budget plan rather than abandon them entirely.

In his testimony, Bernanke did not discuss the future course of interest rates. Many economists believe the Fed will hold rates steady when it meets Jan. 30-31. The central bank has left rates alone since August, when it paused a two-year rate-raising campaign to fend off inflation.

The economy has enjoyed a “pretty good run” in terms of economic growth and productivity gains, he observed.

During questioning by lawmakers during the nearly two-hour hearing, Bernanke said that the “general view is tax cuts don’t pay for themselves” and their economic impact hinges largely on the nature of the tax cut.

When asked about streamlining the complex tax code, Bernanke said the current code is “very burdensome,” saying the average taxpayer spends 27 hours doing his taxes.

The Fed chief once called for the nation’s

repeated his interest in seeing market discipline — not new regulation — act as a policing force on the rapidly growing hedge fund industry.

© 2010 The Associated Press. All rights reserved. This material may not be published, broadcast, rewritten or redistributed.

advertisement



**Get a FREE ADT-Monitored Home Security System.\***

(With \$99 customer installation and purchase of ADT alarm monitoring services. See important terms and conditions below.)

**Call Now! 1-877-835-8373**

**SECURITY CHOICE** ADT Authorized Company **ADT AUTHORIZED DEALER**

\*\$99.00 Customer Installation Charge. 30-Month Monitoring Agreement required at \$35.99 per month (\$1,295.64). Form of payment must be by credit card or electronic charge to your checking or savings account. Offer applies to homeowners only. Local permit fees may be required. Satisfactory credit history required. Certain restrictions apply. Offer valid for new Security Choice - An ADT Authorized Dealer customers only and not on purchases from ADT Security Services, Inc. Other rate plans available. Cannot be combined with any other offer. \*\*\$100 VISA® Gift Card Offer: \$100 VISA Gift Card is provided by Security Choice and is not sponsored by ADT Security Services. Requires mail-in redemption. Call 1-888-407-2338 for complete restrictions and redemption requirements.

Print Powered By  **FormatDynamics™**