

S.F. Fed president sounds alarm on entitlement spending

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San Francisco Federal Reserve President Janet Yellen said Friday that she's concerned about projections for long-term federal budget deficits given rising spending on Social Security, Medicare and Medicaid as more baby boomers retire.

Seeing ahead five, ten or fifty years, "we begin to look at numbers that are truly staggering and frightening," Yellen said of anticipated budget deficits to finance entitlement spending.

"The growth of the federal budget deficit is explosive," Yellen said in response to an audience question about the impact of federal budget deficits after delivering a speech at the California Chamber of Commerce board meeting in San Francisco

"The federal budget deficit is not sustainable," Yellen later told reporters. "I'm concerned that the people take it as a given they have Social Security, Medicare and support from Medicaid to pay for nursing home care," Yellen said. "A lot of people are not well prepared for retirement."

And as troubled airlines and other long-time stalwarts of the American economy walk away from promises of pensions and retiree health care, boomers may look to the government even more for financial support during their gold years.

Yellen noted that costs for Social Security, Medicare and Medicaid now equal 8 percent of gross domestic product and will rise to 16 percent of GDP in 2030. But tax revenues as a percent of GDP don't show a similar rise to pay for those benefits.

"Some think the federal government is in a similar position (to that of corporate America) in that it has unfunded liabilities," she said.

Her comments echoed Fed Chairman Alan Greenspan's prepared remarks delivered via videotape Friday at a forum at the Philadelphia Federal Reserve Bank.

"Our budget position will substantially worsen in the coming years unless major deficit-reducing actions are taken," Greenspan said. "The fundamental fiscal issue is the need to make difficult choices among budget priorities, and the need is becoming ever more pressing in light of the unprecedented number of individuals approaching retirement age."

Yellen focused her speech on the current state of the economy, saying that there's room for further tightening.

"I'm generally optimistic about the future for inflation, though I do think there are upside risks -- mainly having to do with energy prices," she said.

As president of the San Francisco Federal Reserve, Yellen is a member of the Federal Open Market Committee, which sets policy on interest rates. She will be a voting member of the committee in 2006.

Many expect the Fed to raise rates for the 13th consecutive time when it meets Dec. 13, pushing the federal funds rate up another quarter-percentage point to 4.25 percent.