

White House foresees steady growth, falling deficit
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The White House projected a steady fall in the US deficit over the next decade while the economy grows moderately, as it released its budget for the 2015 fiscal year yesterday.

President Barack Obama's team foresees the American economy growing by 3.1% this year and by 3.4% the next, with inflation remaining under control, rising to only 2.0% in 2015.

"Building on the progress already made, the budget's deficit reduction measures are more than enough to achieve the key fiscal goal of stabilizing the debt as a share of GDP," the document said.

The budget projects steady progress in building income, so that the government can reach a primary surplus – spending excluding debt service – by 2018.

The White House's modestly expansive budget will almost certainly be blocked in Congress, because it contains certain tax increases and spending rises that Republicans have already rejected outright.

But it offers a view that the country's budget deficit, which boomed after the 2008 crisis, can be quickly brought down to comfortable levels, falling to US\$564 billion (RM1 trillion), or 3.1% of GDP, in the fiscal year beginning October 1 and to 2.2% of GDP by 2020.

Those levels were last seen in the buoyant years before the 2008 financial crisis, when bailouts of the financial and auto industries drove up government spending, while a deep recession cut revenues deeply.

The fiscal deficit soared to US\$1.4 trillion in 2009 – more than 10% of GDP – and was still above US\$1 trillion in 2012, when Democrats and Republicans agreed on tough measures to reduce the shortfall.

The budget for the year beginning October 1 is projected at US\$3.9 trillion, up 6.8% from the current year.

Discretionary spending – the third of the budget that excludes mandatory programs like social security and medicare – is barely changed at US\$1.16 trillion, mainly because of a deal last year with Republicans in Congress to restrain spending growth.

A key to the budget figures – and to why Republicans will resist the document as it stands – are Obama's proposals to increase government receipts.

The White House said the government could bring in US\$650 billion over the next decade with tax reforms that would eliminate special breaks for businesses like oil companies, increase a tax that favors wealthy investors over regular income earners, and remove various other loopholes in the tax code.

The White House also predicts US\$400 billion in savings from implementing health care reforms and US\$158 billion in savings from immigration reform between now and 2024.

Such added income and savings are deeply needed, the White House said, to deal with the costs of an aging population while continuing to invest in the economy itself.

"The budget secures that revenue through tax reform that reduces inefficient and unfair tax breaks and ensures that everyone, from Main Street to Wall Street, is paying their fair share," it said.

The budget's longer term outlook also sees the country's huge debt burden falling steadily.

While the absolute level of US debt – now totalling US\$17.3 trillion – will keep rising to cover the persistent deficit, its ratio to the overall size of the economy will fall slowly, the White House said.

Using the narrower definition of debt held by the public – which excludes intergovernmental holdings like debt exchanged with the social security trust fund – the White House said the ratio to GDP will fall from nearly 75% in fiscal 2015 to 69% by 2024.

"The budget adheres to the spending levels agreed to by the Congress for fiscal year 2015," Obama said in a statement.

"But there is clearly much more we can and should do to invest in areas like infrastructure, innovation, and education that will create jobs, economic growth, and opportunity." – AFP, March 5, 2014.

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