A new foundation for American greatness?

The latest budgetry output from the White Houses provides little that is actually likely to make it past Congress

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Optimistic on growth

The President's Budget is already being criticised for its optimistic assumptions on growth. For example, USD3.6tr in spending reductions are offset with a USD5.6tr increase in revenues over ten years, bringing the budget deficit to balance, and reducing the national debt to 60% of GDP from a current total of 77% (debt held by the public) (see table above).

The budget contains a "2-penny plan" to reduce non-defence discretionary spending by 2% per year, saving $54bn. But the real US budget problem comes from non-discretionary spending. Within 2 years of the end of this budget projection, the Congressional Budget Office believe that entitlements will consume all government revenues, requiring all discretionary spending to be financed with government debt. So the sums don't appear to add up currently, unless you accept the increased growth assumptions of this budget.

59.8%

Projected debt held by the public in 2027

(% GDP)

A tough passage ahead

There are a number of elements in the budget that might appeal to Democrats in the House and Senate – for instance, the intention to provide paid parental leave, paid for out of unemployment insurance. There is also some debt-relief and support for those burdened by large student debts. But equally, measures aimed at restricting eligibility for food stamps, and tightening child support eligibility weigh in the opposite direction.

> *There is too much in this budget that will not make it past Congressional and Senate scrutiny*

Measures to cut the regulatory burden on the economy, and to simplify the tax code are likely to help increase the efficiency of the US economy, and could provide some boost to growth. The budget also re-affirms the intention to move to a territorial tax system – thus eliminating the need for overseas earnings to remain offshore – this could boost domestic spending and investment too.

But in our view, there is too much in this budget that will not make it past Congressional and Senate scrutiny to ensure that any of these positive measures will make it into any eventual budget agreement - assuming that one is in fact reached before the debt ceiling again becomes an issue in late September / early October.

Author

Robert Carnell
Regional Head of Research, Asia-Pacific
robert.carnell@asia.ing.com