Sujet: Les USA ne sont pas au bout de leur peine pour réduire le déficit. / No easy way to reduce US budget deficit.

Source: CNN Money.com

Date: 12.04.2010

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'Earthshaking' ways to fix U.S. debt

By Jeanne Sahadi, senior writer

April 12, 2010: 11:08 AM ET

NEW YORK (CNNMoney.com) -- The debate over how to reduce U.S. debt levels has generated a lot of partisan huffing and puffing in Congress, but no meaningful action.

Enter President Obama's bipartisan fiscal commission, which will hold its first meeting in a few weeks.

The panel's goal is not to erase the deficit -- that would be far too difficult at this point. Rather, the commission will recommend policies that can slow the growth rate of debt to a "sustainable" level. Among other things, that means making sure annual deficits don't grow faster than the economy.

The commission's first task is to figure out what lawmakers can do to bring the annual deficit as a percent of gross domestic product (GDP) down to 3% starting in 2015.

Broadly speaking, Congress has three options: raise taxes, cut spending or do both. None will be pretty.

Indeed, the magnitude of the changes required is "nothing short of earthshaking," Martin Sullivan, contributing editor at Tax Analysts, wrote in Tax Notes.

There are different projections for what the 2015 deficit will be.

Under the White House 2011 budget proposal, the deficit will hit 4.3% of GDP in 2015, according to the Congressional Budget Office. If that pans out, the commission would need to come up with ways to shave the deficit by just over 1 percentage point of GDP.

But there's no guarantee that Congress will pass all of the White House's proposals. Without them, the deficit would be roughly 6% of GDP in 2015, according to estimates from two budget and tax groups.

Since it's not clear yet which of the president's budget proposals will be adopted, the following are examples of the depth of changes needed to reduce the deficit under the second scenario. Of course, if Congress does pass the president's budget, the changes outlined below would not need to be as drastic.

If lawmakers opted to reduce the deficit strictly through tax increases, they would

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need raise more than $500 billion in new revenue, according to a Tax Policy Center study.

And they'd have to hike tax rates by a third to pull it off -- the bottom rate would go from 10% to 13.7%, and the top rate would rise from 35% today to 48%.

If they just wanted to raise the top three rates, they'd have to jack them up by 88%. So, for example, the top rate would rise from 35% to 66%.

To hit the deficit target by only raising rates on the highest-income households would require a far more drastic jump. Rates for individuals making more than $200,000 (or $250,000 for couples) would more than double, with the top rate approaching 77%.

All of these estimates don't account for how those taxpayers would behave when faced with higher taxes. If they did, the rate jumps would need to be even higher, said Roberton Williams, a senior fellow at the Tax Policy Center.

Trying to achieve the same deficit reduction without increasing taxes could be done by slashing spending.

But the cuts would be harsh. For instance, discretionary spending would need to be cut by 40%, according to an analysis by Sullivan. Discretionary spending pays for everything except Medicare, Medicaid, Social Security and interest on the debt. In other words, it funds most federal government services and support, including defense, education and infrastructure.

Alternatively, lawmakers could just cut mandatory spending on Medicare, Medicaid and Social Security by 25%.

Or they could just cut total spending -- both discretionary and mandatory -- by 13%.

Sullivan figures that if the commission were to recommend the tax-and-spending combo special, they would have to raise all federal taxes (i.e., not just income taxes) by 8%, while cutting all spending by 7%.

And that's the most plausible option economically, although politically it isn't likely to be any more feasible than the other options.

Maybe Congress will prove Sullivan and others wrong. If it does, the total accrued public debt -- which excludes the money owed to the Medicare and Social Security trust funds -- would fall somewhere between 70% and 75% of GDP by 2018, according to Sullivan.

That would be an achievement. But it would only be a first step on the road to stabilizing the debt over time. To do that, deficit experts are recommending that lawmakers aim for a much bigger goal: to reduce the public debt to 60% of GDP sometime between 2018 and 2022.

To reach that target requires much farther reaching changes than a tax increase or spending cut within the existing system. It will likely involve tax reform, budget reform and changes to major programs such as Medicare and Social Security.

Of course, that will be many, many times harder than reducing the annual deficit to 3% of GDP.
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