

Comments on Barry Bosworth, “The Budget Crisis: Is It All Déjà Vu?”

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It is a pleasure and honor for me to read and comment on Dr. Bosworth’s excellent paper. As a layman on the US economy, I learned a lot from it. The paper basically says that over the medium and long-term the US faces a large, growing and unsustainable structural budget deficit. The steady rise in the budget deficit and a persistent decline in personal savings have reduced national savings in recent years. The economy has continued to grow because the US was able to invest more than it saved by borrowing abroad as indicated by an ever-larger larger current account deficit that grew from 3 percent of GDP in the mid-1980s to over 6 percent at present. The persistent US current account deficits in recent years increased the nation’s indebtedness to other countries. A portion of the income generated by foreign-owned assets in the US must be paid to foreign lenders. The interest burden of the public debt was reduced as the Fed funds rate was cut 13 times from a peak of 6.5 percent in early 2002.

Dr. Bosworth’s long term simulation model indicates that the fiscal structural problem is too big to be solved by economic growth alone. The paper shows that reducing future fiscal burdens also requires substantial changes to existing federal spending and tax policies, including measures to increase private savings and investment. Dr. Bosworth is in favor of raising revenues, among others, by making the recent tax reductions temporary, expiring as scheduled at the end of this decade. Dr. Bosworth blames the costly military campaigns in Afghanistan and Iraq as the main sources of the increase in government expenditures.

Dr. Bosworth also provide two reasons why the fiscal burdens due to demographic trends and rising health care costs will be relatively less severe in the US as compared to other major industrialized countries. The first reason is that the US population will not be declining as it addresses the problem of an aging population because the US birth rate has remained near replacement levels. The second reason is that the US public pension program is less costly and relies more on alternative sources of income for the elderly than in most other industrialized countries. Government provided medical care in the US, for example, is only available for the aged and through a

limited program for the poor, as compared to more generous programs in other countries. Those who are not covered by the national health program in the US are covered by a variety of private systems.

I have two questions for Dr. Bosworth. The first question is related to the population and workforce in the US and the second is related to sharing military expenditures. On the first question, what are the impacts of the tightened immigration policies after the events of September 11, 2001 on the population and workforce in the US? Liberal immigration policies prior to that terrorist attacks, including worker and student visa programs, had drawn immigrants from all over the world into the US. Coupled with America's global preeminence in higher education and science, this inflow had addressed the US's needs for workers at productive ages with technical skills. After 9-11, the authorities tightened domestic homeland security, notably for border and transportation security, and implemented immigration policies that reduced the flexibility of the labor force.

On the second question, as the military campaigns in Afganistan and Iraq are public goods for the oil rich neighboring countries, can they share the burden of the costs, as was the case during the Gulf War of 1991?