US faced grim future without action to curb debt, says report

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WASHINGTON: The US economy is heading down a path of lower living standards and diminished confidence without action to stem the massive budget deficit, a group of prominent researchers said on Wednesday.

A National Research Council panel said the country faces difficult choices on tax increases and spending cuts to achieve a more sustainable fiscal balance.

"The federal government is currently spending far more than it collects in revenues, and if current policies are continued, will do so for the foreseeable future," the report said.

"No reasonably foreseeable rate of economic growth would overcome this structural deficit. Thus, any efforts to rein in future deficits must entail either large increases in taxes to support these programs or major restraints on their growth - or some combination of the two."

The US government closed its 2009 fiscal year with a record 1.417-trillion-dollar budget deficit and the White House forecasts an even bigger gap of 1.502 trillion dollars in fiscal 2010, said the committee from the National Research Council and the National Academy of Public Administration.

"Our committee members have varying political backgrounds and views, but we all agree that future economic prosperity is at grave risk if our nation does not change its fiscal course," said John Palmer, dean emeritus of the Syracuse University Maxwell School and co-chair of the panel.

Delaying action for even five or 10 years will make addressing the problem more painful and costly, the report notes. Delay also raises the risk that the nation's creditors, especially foreign governments, will conclude that the US has no plan to restore fiscal stability and will demand higher interest rates to keep buying US debt.

The report noted that the US government debt now totals more than 12 trillion dollars - of which 7.5 trillion is publicly held, about half of this by investors abroad.

"If policies do not change, a large and increasing debt will expand the portion of the budget required to pay interest on the debt, especially if interest rates rise, and thereby reduce the resources available for all other government activities,"the report said.

"Increasing debt also may contribute to a loss of international and domestic investor confidence in the nation's economy, which would, in turn, lead to even higher interest rates, lower domestic investment, and a falling dollar." - AFP/de