US economy: developments since the 2008/2009 recession

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Sometimes referred to as the Great Recession, the 2008/2009 decline in GDP of 4.2% was the largest since World War II. The recovery has been unexceptional but steady, with annual growth averaging 2.2% between 2010 and 2013. GDP in Q3 2014 was 8.1% above its pre-recession peak. The IMF forecasts GDP growth of 2.2% in 2014 and 3.1% in 2015.

The unemployment rate rose sharply during the recession, from around 4.5% to 10% in early 2010. After stabilising, it began to fall in late 2011 and was 5.6% in December 2014. Despite a large increase in jobs created since early 2010, the proportion of working age adults in employment is still well below what it was before to the recession due to population growth.

With interest rates at near-0%, the Federal Reserve has also been buying large quantities of assets in recent years in order to keep long-term interest rates down. As the result of a strengthening economy the Fed ended it asset-buying programme, or QE3, in October 2014. Economists expect interest rates to start being raised in mid-2015.

The financial crisis and fiscal stimulus resulted in very large budget deficits, peaking at over 13% of GDP in 2009 (IMF data). Deficits have remained high since then, but some tax rises, spending cuts, as well as the recovering economy, have seen the deficit fall to 5.8% in 2013.

Key statistics			Sources: IMF/OECD/US govt depts
Population (Nov'14)	319.2 million	**GDP per capita (2014)**	$54,700 (IMF f'cast)
GDP growth (q'rterly)	+1.2% in Q3 2014	**Gov budg bal (%GDP)**	-5.5% ('14 IMF f'cast)
GDP growth forecast	+2.2% in 2014 (IMF)	**Gov debt (%GDP)**	106% ('14 IMF f'cast)
Unemployment rate	5.6% in Dec 2014	**Curr acc bal (%GDP)**	-2.5% ('14 IMF f'cast)

Contents

1 Economic developments and outlook 2

2 Monetary policy 5

3 Fiscal policy 8

4 Further information 11

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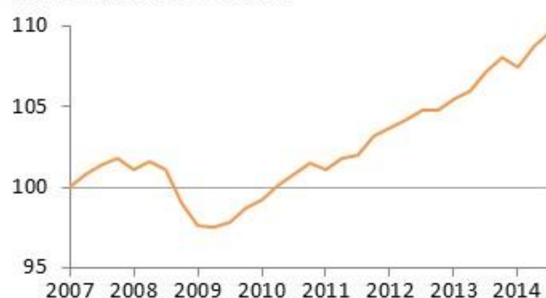
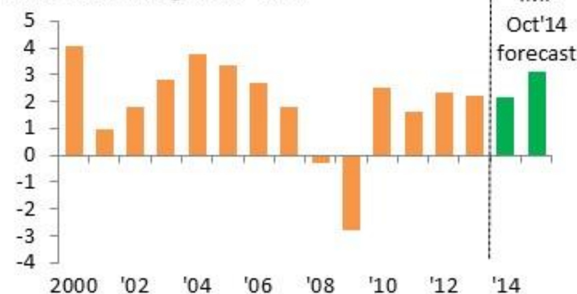
1 Economic developments and outlook

The American economy grew on average by 2.7% a year between 2000 and 2007. The financial crisis and its consequences led to a deep recession (particularly by US standards) in 2008 and 2009, with GDP falling by 4.2% and unemployment soaring. Massive disruption in the financial system required large-scale government bail outs. The Obama administration initiated a $787 billion stimulus package to support the economy that was passed by Congress in early 2009.

Recovery began in late 2009 and continued steadily into 2010 and 2011, although the pace of growth was relatively slow given the sharp fall seen during the recession quarterly GDP growth averaged 0.5% in 2010 and 2011).[1] The unemployment rate rose until late 2009 when it peaked at 10% - very high by American standards (levels last seen in the early 1980s recession). Long-term unemployment, not normally a large problem in the US, soared: the median duration of unemployment went up from 10 weeks to over 20.[2]





The return to steady growth and a generally more optimistic outlook reflects some underlying improvements in the economy over the past few years. The housing market has seen a rise in sales, prices and construction of new homes (although momentum eased back during 2013), and the labour market improving with growth in jobs created picking up. In addition, corporate profitability is strong, inflation is subdued, stock markets are buoyant and households have reduced their debt burden.[3]

GDP growth in 2013 of 2.2% was boosted by a strong expansion in the second half of the year on the back of strong domestic demand and export growth. This came despite a large negative contribution from fiscal policy. The effects of tax increases agreed as part of the deal to avert the "fiscal cliff" on 1 January 2013 and the automatic government spending cuts (the so-called "sequester") reduced GDP growth by around 1.5 percentage points in 2013 (more on fiscal policy below).[4]

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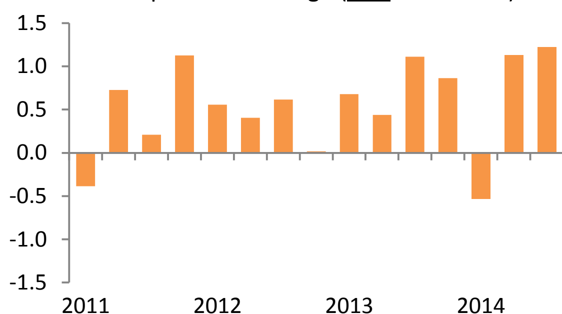
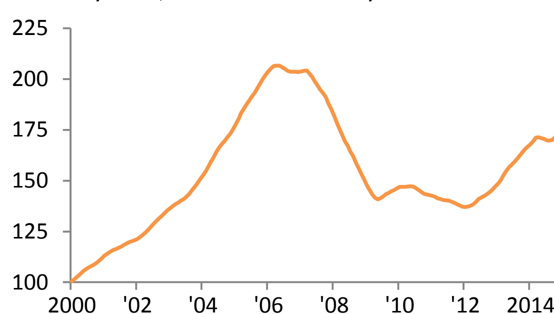
[1] Quarterly growth data in this note are not annualised, i.e. just the % change in GDP from one quarter to the next

[2] St Louis Federal Reserve, FRED database: Median Duration of Unemployment

[3] See for example, Reuters, "US household debt burden hits record low, a positive spending sign", 13 Mar 2013

[4] Estimates from IMF, "World Economic Outlook", Apr 2014, p51 and Federal Reserve, "Monetary Policy Report", 17 Jul 2013, p11





Weather-related disruption (there was a severe winter in much of the country) was blamed for a 0.5% quarterly contraction in GDP in Q1 2014. There were declines in exports and investment, and only a modest increase in consumer spending.[5] This was the worst quarter for growth since the depth of the financial crisis in Q1 2009.

The economy bounced back strongly in Q2 and Q3 2014, with quarterly GDP growth of 1.1% and 1.2%, respectively. Growth in Q3 2014 was the fastest in over a decade (since Q3 2003), boosted by a large increase in investment, rising consumer spending (especially purchases of durable goods) and an increase in federal government consumption (for the first time in two years), particularly defence spending.[6]

Despite strong growth in Q2 and Q3 2014, the weak outturn in Q1 means that GDP growth in 2014 as a whole is expected to be just over 2%. Growth is expected to accelerate in 2015, with forecasts of 3.1% from the IMF and the OECD.[7]

Recovery in the US, UK and eurozone compared

The depth of the recession in 2008/09 was more severe in the UK compared with the eurozone and the US: peak-to-trough falls in real GDP were 6.0% in the UK, 5.8% in the eurozone and 4.2% in the US. The initial recovery trajectories were very similar (see GDP chart below). However, from 2011 they began to diverge. In the US modest growth continued; in the eurozone and UK output stalled (and then began to fall in the eurozone).

Eurozone GDP fell in six successive quarters from Q4 2011 to Q1 2013 before rising modestly in the quarters up to Q2 2014 when it was still 2.4% below its pre-2008/2009 recession peak. In the UK, after a period of stagnation, GDP growth picked up in 2013, and GDP in Q3 2014 was 3.4% above its pre-recession level. The US economy in Q3 2014 was 7.7% larger than it was before the recession.

Unemployment rates in the US and eurozone were both 10.0% in October 2009. Since then the rate in the US has fallen (it was 5.6% in December 2014). In the eurozone, the unemployment rate in November 2014 was 11.5%. In the UK, the unemployment rate remained fairly stable from mid-2009 to early 2013, but has fallen since then to just below 6% in late-2014.

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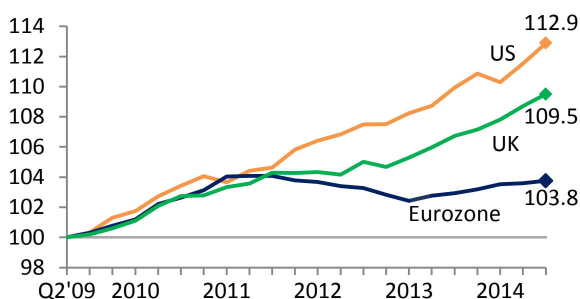
[5] US Dept of Commerce's Bureau of Economic Analysis, "GDP: First quarter 2014 (3rd estimate)", 25 Jun 2014

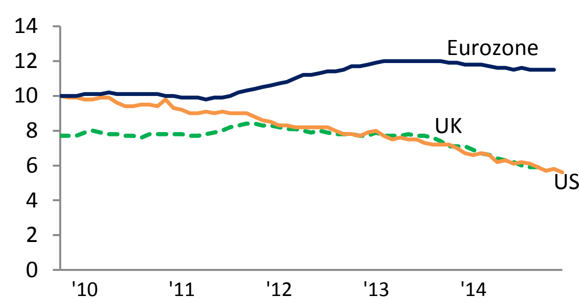
[6] BEA, National Income and Product Accounts Tables, tables 1.1.1 and 1.1.2 [accessed 13 Jan 2015] and FT, "US notches up fastest growth in decade", 23 Dec 2014

[7] IMF, "World Economic Outlook", Oct 2014 and OECD, "Economic Outlook", Dec 2014

US, UK, eurozone GDP since recession trough
Q2 2009=100, quarterly data, OECD data



US and eurozone unemployment rate (%)
Since both were 10% in Oct'09, monthly OECD data

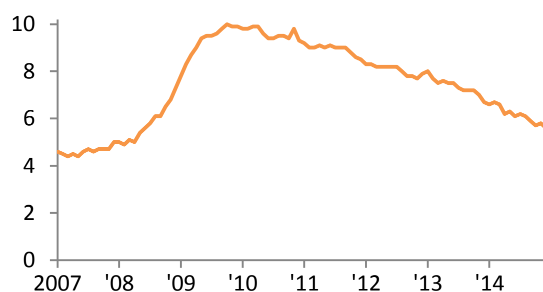


Labour market

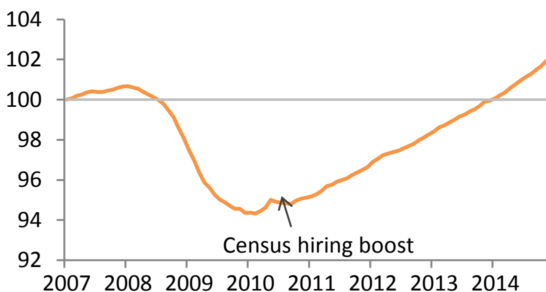
As noted earlier, the 2008/2009 recession saw unemployment levels rise sharply; the unemployment rate peaked at 10% toward the end of 2009 and early 2010. It has since fallen and stood at 5.6% in December 2014.

The number of employees, as measured by non-farm payrolls, fell sharply during the recession, with a decline of 8.7 million (or 6.3%) from its peak in early 2008 to its trough in early 2010. During the recovery employment levels initially rose consistently but not rapidly. However, since the end of 2013 employment growth has accelerated with an average monthly increase of nearly 250,000 in 2014.

US - Unemployment rate (%)
Monthly data, OECD data



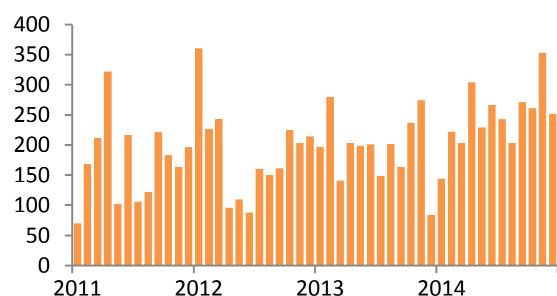
US - Employment level (Jan 2007=100)
Monthly data, non-farm payrolls - all employees

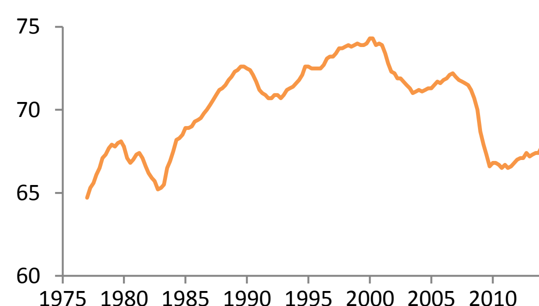


The total number of employees was 140.3 million in December 2014, 1.98 million above the pre-recession peak of 138.4 million in January 2008.[8] However, this comparison does not take into account population growth. Between mid-2007 and November 2014 the population of the US has risen by an estimated 17.9 million to 319.2 million.[9]

The employment rate – the proportion of the population in work – fell sharply during the recession from around 72% to 67% for those aged 15-64. It has only improved a little since then; it was 68.5% in Q4 2014 (OECD data). Despite the millions of new jobs being created, it has not been enough to substantially outpace population growth. In historical terms, the employment rate remains low, around the level of the mid-1980s (see chart below).

[8] Data based on US Bureau of Labor Statistics non-farm payrolls all employees series [accessed 13 Jan 2015]
[9] US Census Bureau, population estimates [accessed 13 Jan 2015]



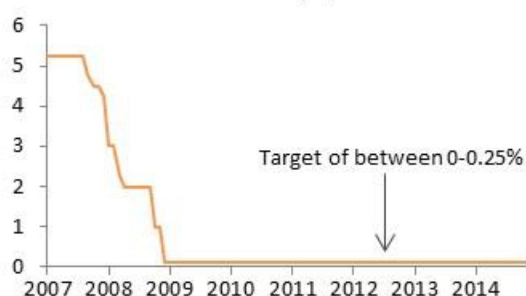


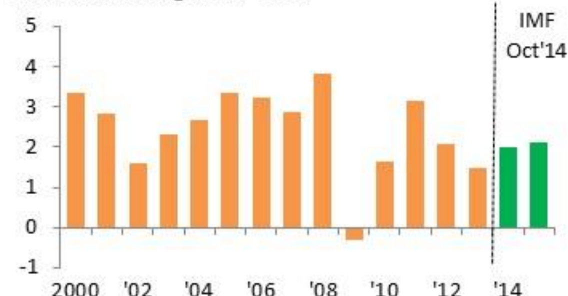
In summary, there has been in improvement labour market conditions, and job creation has been strong in 2014 (although wage growth remains subdued at around 2% in nominal terms). The Federal Reserve in a press release following its monetary policy meeting in October 2014 noted that: "On balance, a range of labor market indicators suggests that underutilization of labor resources is gradually diminishing".[10] This contrasts with earlier assessments that there remained considerable slack in the labour market.

2 Monetary policy

Response to financial crisis

Interest rates began to be lowered by the Federal Reserve's Federal Open Market Committee (FOMC) as the economy showed signs of slowing in 2007.[11] The benchmark Fed Funds rate was cut to 0-0.25% in December 2008 where it has remained ever since due to the weak labour market and subdued consumer price inflation.





With interest rates near zero, the Fed embarked on two programmes of quantitative easing (which they called large-scale asset purchases), described by the OECD below:

> With nominal federal funds rate near its zero lower bound, the FOMC implemented several additional measures, including two rounds of purchases of long-term assets intended to put downward pressure on longer-term interest rates and improve conditions in credit markets.[12]

Further measures were taken in late 2011 in response to the financial market pressures resulting from the eurozone crisis:

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[10] Federal Reserve Press Release (untitled), 29 Oct 2014

[11] The Fed Funds rate was 5.25% prior to the series of cuts undertaken from September 2007 to December 2008.

[12] OECD, *Economic Survey of the United States 2012*, June 2012, p14

> [W]hen financial market pressures in Europe became intense in the autumn of 2011, the Federal Reserve implemented a programme to extend the average maturity of its holdings of Treasury securities (the Maturity Extension Program, also known as 'operation twist'), in order to put additional downward pressure on longer-term interest rates.[13]

In total, QE1 (the first phase of its quantitative easing programmes) saw the Fed buy $1.75 trillion of mortgage-backed securities and federal debt between December 2008 and March 2010. QE2 involved the Fed buying about $600 billion in new assets between November 2010 and June 2011.[14]

QE3

In September 2012, the Fed announced another round of asset purchases, also known as QE3. This involved the Fed buying a total of $85 billion long-term assets each month ($40 billion of mortgage debt and $45 billion of government debt) until labour market conditions "improve substantially". Again, the rationale was to keep longer-term interest down to support the mortgage market and the financial environment more broadly.[15] In 2013 alone, purchases totalled over $1 trillion. The Fed stopping buying assets at the end of October 2014 thereby ending the programme. As of 30 October 2014, the total amount of US government bonds held by the Fed was over $2.5 trillion, with a further $1.7 trillion of mortgage-backed securities.[16]

Tapering

Following the 19 June 2013 FOMC meeting, then Fed Chairman Ben Bernanke suggested that the amount the Fed purchases each month in QE3 could be moderated later in 2013 if the economy and labour market continued their improved performance. This was the first mention from the Fed as to how QE3 might end.

Specifically, Chairman Bernanke in his press conference following the meeting noted that if the labour market improved as the FOMC expected then asset purchases could be reduced later in 2013 and end completely in mid-2014.[17] Financial markets reacted strongly to this talk of "tapering" QE3. Long-term bond yields went up in the US and in many other countries as traders came to grips with the prospect of QE3 being wound down and then ended within a year.

Weaker economic data over the summer tempered market expectations of how much the Fed would cut back on QE3. Nevertheless, the consensus was that at its September 2013 meeting, the FOMC would at least begin to reduce the amount of assets it buys as part of the programme. However, the FOMC instead decided to leave the pace of asset purchases unchanged at $85 billion per month preferring to "await more evidence that [economic] progress will be sustained before adjusting the pace of its purchases".[18]

As growth accelerated and labour market conditions improved in the second half of 2013, the FOMC decided at its December 2013 meeting to reduce the scope of its monthly asset

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[13] Ibid.

[14] Federal Reserve Bank New York, "Large-Scale Asset Purchases by the Federal Reserve: Did they work?", *Economic Policy Review*, May 2011 and Fed NY, New York Fed 101: The Federal Reserve's $600 Billion Treasury Purchase Program (Called by some QE or QE2) [accessed 22 May 2014]

[15] Federal Reserve Press Release (untitled), 13 Sep 2012 and Press Release (untitled), 12 Dec 2012

[16] Federal Reserve Statistical Release, H4.1 Factor Affecting Reserve Balances, 30 Oct [accessed 4 Nov 2014]

[17] Federal Reserve, "Transcript of Chairman Bernanke's press conference", 19 Jun 2013

[18] Federal Reserve Press Release (untitled), 18 Sep 2013

purchases by $10 billion beginning in January 2014.[19] At subsequent meetings this $10 billion pace of reduction was maintained until the Fed stopped adding to its holdings in October 2014 following its FOMC meeting. In the statement accompanying the decision, the FOMC stated that there had been a "substantial improvement in the outlook for the labor market" since QE3 began in September 2012 and that they believed there was "sufficient underlying strength in the broader economy to support ongoing progress toward maximum employment in a context of price stability".[20]

Interest rates

As well keeping the Fed Funds rate at a target range of between 0-0.25%, the FOMC after its 12 December 2012 meeting announced that rates would remain at this level as long as the unemployment rate remained above 6.5%.[21] It had previously noted in January 2012 that rates would likely remain exceptionally low until at least "late 2014" and then in September 2012 this was extended to at least "mid-2015".[22]

In December 2013, with the unemployment rate at 7.0%, this forward guidance was changed. The FOMC stated that as well as the unemployment rate it would look at additional labour market, economic and financial indicators in determining whether to raise rates. These changes to its guidance meant that it would likely keep rates unchanged until "well past the time that the unemployment rate declines below 6-1/2 percent".[23]

With the unemployment rate continuing to fall, the FOMC at its March 2014 meeting dropped the 6.5% unemployment rate threshold from its guidance and added that rates would remain at near-0% "for a considerable time after the asset purchase program ends".[24] At its October 2014 meeting, at which the QE programme was ended, the FOMC retained the "considerable time" phrase in its press release.[25]

At its December 2014 meeting the FOMC dropped the "considerable time" phrase but stated that it can be "patient in beginning to normalize the stance of monetary policy [i.e. raise rates]".[26] Comments from Chairwoman Janet Yellen immediately following the meeting also suggested rate rises weren't on the cards until at least April 2015.[27] Economists and investors expect the first move to be around the middle of 2015, although strong economic data released since the meeting may put pressure on the Fed to start increasing rates sooner than that.[28]

New Fed Chair in February 2014

Ben Bernanke stepped down from his role of Chair of the Federal Reserve when his term expired at the end of January 2014. Previous Vice Chair Janet Yellen was nominated by President Obama, and then appointed by Congress, as his replacement. She took over at the beginning of February 2014.

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[19] Federal Reserve Press Release (untitled), 18 Dec 2013

[20] Federal Reserve Press Release (untitled), 29 Oct 2014

[21] Two further conditions were given by the FOMC: "...inflation between one and two years ahead is projected to be no more than a half percentage point above the Committee's 2 percent longer-run goal, and longer-term inflation expectations continue to be well anchored."

[22] Various Federal Reserve press releases in 2012

[23] Federal Reserve Press Release (untitled), 18 Dec 2013

[24] Federal Reserve Press Release (untitled), 19 Mar 2014

[25] See, for example: "Fed Closes Chapter on Easy Money", *Wall Street Journal*, 29 Oct 2014 and Robin Harding, "Yellen policy on rates needs clarifying", *Financial Times*, 13 May 2014

[26] Federal Reserve Press Release (untitled), 17 Dec 2014

[27] "Fed signals tightening by mid-2015", *Financial Times*, 17 Dec 2014

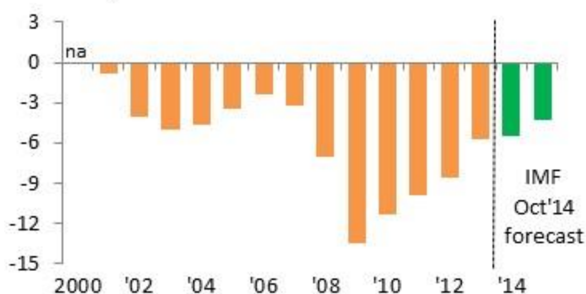
[28] "Fed unlikely to raise rates before April", *Financial Times*, 7 Jan 2015

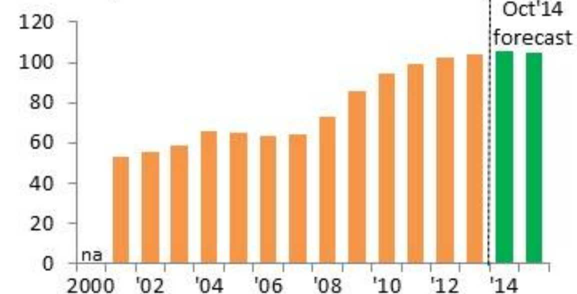
3 Fiscal policy

Financial crisis and aftermath

The general government budget deficit rose sharply the financial crisis and recession of 2008/09, from 3.2% of GDP in 2007 to 13.5% in 2009 (IMF data). It declined only moderately in the early years of the recovery to 11.3% in 2010 and 9.9% in 2011. Part of the reason for this, aside from the weakness of the recovery, was expansionary fiscal policy. The largest measure was the $787 billion fiscal stimulus package known as the American Recovery and Reinvestment Act which became law in February 2009. Although elements of the stimulus will stretch to 2019, more than 90% of the budgetary impact was realised by the end of 2011.[29] Modest economic growth, the expiry of many of the various stimulus measures and some fiscal tightening (see below for more) resulted in the budget deficit falling to 5.8% in 2013.

These large deficits led to debt rising quickly. Using IMF data, general government gross debt increased from 64% in 2007 to 104% in 2013. This rapid rise in public sector debt became a big political issue in the years following the end of the recession. Some, mostly on the right, became vocal critics of the large deficits and high debt levels. For example, this was a big issue for the developing Tea Party movement which, in part, led to the Republicans gaining control of House of Representatives in the 2010 congressional elections (the Republicans gained control of the Senate as well after the 2014 mid-term elections).





The debt ceiling compromise of 2011

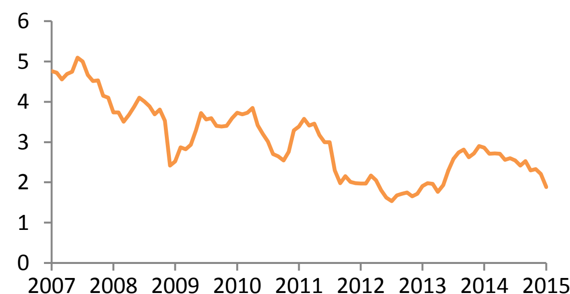
In the US, Congress sets a "debt ceiling" which authorises the Treasury to borrow up to that amount. In the summer of 2011, debt levels were approaching this ceiling. Divided control of Congress and increasingly bitter partisan divisions between Republicans and Democrats led to brinkmanship which was only resolved when a last-minute deal, the Budget Control Act of 2011, was agreed on 2 August 2011. The Treasury had warned that a failure to raise the ceiling may lead to the US failing to make debt interest payments on debt and therefore defaulting on its sovereign debt obligations.

The Budget Control Act raised the debt ceiling and created a new committee to propose deficit reduction measures that totalled at least $1.2 trillion over 10 years. The legislation contained measures that would automatically act to reduce spending by up to $1.2 trillion over 10 years if Congress failed to enact new legislation arising from the committee's proposals, i.e. cuts of this magnitude would happen one way or another. The automatic cuts - "sequestration" - would fall equally on defence and non-defence spending beginning in

[29] More information on the stimulus and its impact on the economy is available in Congressional Budget Office, "Estimated Impact of the American Recovery and Reinvestment Act on Employment and Economic Output from October 2011 Through December 2011", Feb 2012

2013.[30] The idea being such cuts would be unpalatable to both Democrats and Republicans, spurring both sides to compromise on a negotiated deficit reduction strategy.

A few days after passage of the Act, S&P lowered their sovereign debt rating for the US from AAA to AA+ citing its lack of confidence in the political process to enable a credible long-term deficit reduction strategy. The impact of this downgrade was limited; US bond yields have remained at historically low levels.[31]



The "fiscal cliff" deal (end 2012)

The bipartisan committee created to come up with deficit reduction proposals disbanded in November 2011 having failed to reach any agreement.[32] This meant the automatic cuts, or sequestration, would begin in early January 2013 unless the law was changed. Also due to come into effect at the beginning of 2013 were increases in tax rates, as the "Bush tax cuts" were due to expire. Together, the spending cuts and tax increases were called "the fiscal cliff". The independent Congressional Budget Office estimated the fiscal cliff would result in a mild contraction in GDP and a rise in unemployment but also in a large reduction in the fiscal deficit in 2013.[33]

A last-minute deal between the Obama Administration, Congressional Democrats and Republicans was struck on New Year's Eve and the early hours of New Year's Day 2012/2013: the American Taxpayer Relief Act of 2012. This postponed the start of the sequester by two months and made permanent a number of the tax rates under the Bush tax cuts, but also let tax rates for higher income taxpayers return to higher levels seen in the Clinton era.[34] It also allowed the 2%-point reduction in social security payroll taxes (similar to NICs in the UK) enacted in late 2010 to expire, reducing take home pay.[35]

The "sequester" (from March 2013)

While the Taxpayer Relief Act dealt with the uncertainty surrounding tax rates and government revenues, it merely delayed the automatic government expenditure cuts for two months. Despite public commitment to avoiding the sequester from both sides, President Obama and Congress failed to reach an agreement. As a result, cuts to discretionary government spending began in March 2013. Areas affected include defence spending,

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[30] Various Congressional Budget Office (CBO) documents listed here: http://www.cbo.gov/publication/43190

[31] S&P, "United States of America Long-Term Rating Lowered To 'AA+' Due To Political Risks, Rising Debt Burden; Outlook Negative", 5 Aug 2011

[32] Statement from Co-Chairs of the Joint Select Committee on Deficit Reduction, 21 Nov 2011

[33] CBO, "Economic Effects of Policies Contributing to Fiscal Tightening in 2013", 8 Nov 2012

[34] For example, the marginal tax rate for incomes over $400,000 per year went up from 35% to 39.6%.

[35] For more on the fiscal cliff agreement see for example, *New York Times*, "Senate Passes Legislation to Allow Taxes on Affluent to Rise", 2 Jan 2013

medical research, infrastructure, national parks, border security, foreign aid, education, NASA and public housing (please note this is by no means a complete list).[36] No programmes are eliminated and most mandatory programmes like Social Security are not affected. As a result some federal staff were subject to involuntary unpaid time off work (also known as "furloughs").

The budget cuts total $85 billion in the 2013 fiscal year which ended in September 2013 (US fiscal years run from October to September), with further cuts up to 2021, totalling $1.1 trillion. These cuts have been criticised by many as ill-conceived as they were not designed to be implemented but rather a way of forcing a political compromise on a deficit reduction strategy. The IMF described the cuts as "arbitrary" and urged the US to slow fiscal consolidation.[37]

The total impact of sequestration, the increase in taxes on the highest earners and the payroll tax hikes on GDP is large. The IMF and Federal Reserve estimate that GDP growth in 2013 was around 1.5%-points lower as a result of these changes.[38] The budget deficit though has declined more quickly as a result of the cuts. IMF data shows the overall general government deficit fell from 9.7% of GDP in 2012 to 7.3% in 2013. The IMF forecasts further declines to 6.4% in 2014 and 5.6% 2015.

Government shutdown and debt ceiling deadline (October 2013)

A partial federal government shutdown occurred on 1 October 2013 as a result of Congress and the President failing to agree on a funding bill. Funding was previously extended in March 2013. In addition, the Treasury Department estimated that the debt ceiling of $16.7 trillion would be breached in mid- to late October 2013 absent any further legislation. This crisis was similar to that of summer 2011 as described above.

The partial federal shutdown is estimated to have led to around 800,000 federal employees (out of a total of 2.1 million) being forced into an unpaid leave of absence, as well as shutting down a number of government-provided services such as the national parks, food inspections, museums, drug trials and government websites.[39]

The threat of breaching the debt ceiling, and causing the US to technically default on its debt obligations, was considered by most economists to be of greater significance due to the importance of the US to the global economy and financial system.

A deal to end the shutdown and extend the debt limit was agreed by Congressional leaders on 16 October. This passed both houses of Congress and was signed into law by President Obama. However, the deal only provided government funding until 15 January 2014 and suspended the debt ceiling until February 2014.[40] A bipartisan committee of lawmakers was also set up to provide a deal to prevent a repeat performance in early 2014 (see below).

Estimates of the effects of the government shutdown on the economy are uncertain, although one estimate from Standard & Poor's put the cost of the two-week shutdown at $24 billion in

[36] For more on the sequester see Washington Post's Wonkblog, "The Sequester: Absolutely everything you could possibly need to know, in one FAQ", 20 Feb 2013

[37] IMF, "Ease off spending cuts to boost U.S. recovery", 14 Jun 2013

[38] Estimates from IMF, "World Economic Outlook", Apr 2014, page 51 and Federal Reserve, "Monetary Policy Report", 17 Jul 2013, p11

[39] For a list see for example, Washington Post "Government shutdown: What's open, what's closed", 1 Oct 2013 and CNN, "Government shutdown: What's closed, what's open?", 9 Oct 2013

[40] For more see FT, "Details of the deal ending the US fiscal crisis", 17 Oct 2013

terms of reduced GDP.[41] Overall, despite this, the US economy recorded healthy quarterly growth of 0.7% in Q4 2013.

Bipartisan Budget Act 2013

The bipartisan committee set up in October 2013 came to a limited two-year government spending agreement which eased the pace of the sequestration budget cuts. There was, however, no longer-term plan, or "grand bargain", as some had hoped. The Bipartisan Budget Act 2013 was passed by both houses of Congress and was signed by the President in December 2013.[42]

The deal will increase spending on defence programmes and domestic programmes by $22 billion each in fiscal year 2013/14 compared with previously (as part of the sequestration cuts). In total around half of the cuts in 2013/14 are reversed. In 2014/15 around one quarter of the cuts are reversed ($18 billion), again equally divided by defence and no-defence programmes.[43]

To offset the additional spending, there are around $20 billion in savings made elsewhere in the budget. This includes increasing an airline ticket tax to pay for security, increases in pension contributions for new federal employees and a reduction in the annual cost of living increase in benefits to military retirees aged under 62.[44] In addition, the sequestration cuts, due to end in 2021, have been extended to 2023.[45]

Debt ceiling increase in February 2014

With the debt ceiling limit approaching, Congress passed a bill in February 2014, which the President then signed into law, extending until 15 March 2015 the amount the US government could borrow.[46] Technically, the debt ceiling was actually "suspended" - removed entirely - during this period, meaning there is no limit to the amount that national debt can increase until mid-March 2015. In practice, around two-thirds of federal spending is mandatory (such as health programmes and Social Security) and could not be changed without new legislation. In addition, the government is only allowed to issue debt to fund existing commitments.[47]

Longer-term issues

The budget deficit is forecast to keep falling over the next few years as the economy improves, but to deteriorate over the longer-term as an ageing population leads to higher expenditure on social security and health.[48]

4 Further information

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