Comparing cyclically-adjusted budget balances between Taiwan and OECD countries

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Abstract

By the end of 2008 the global financial crisis triggered a global economic recession, governments (including emerging countries) are seeking to promote the revitalization of economic prosperity programs to stimulate aggregate demand to counter the economic downturn. Economic crisis caused rising national debt default crisis, once again the impact of global financial markets. The high default risk of the national debt and its financial structure present the high proportion of the characteristics of the structural deficit.

Structural deficit is the largest national debt accumulated quickly accomplices, might also become bankrupt government executioner. The purpose of this study aimed at understanding the current status of cyclically-adjusted balance in Taiwan and comparison with OECD countries. This paper calculated the structural budget balance by the same methodology used by OECD countries. The author used the data from 1985 to 2008 in Taiwan to measure the structural budget balance, to review the actual budget deficit, the result of policy factors to cause the size of the deficit and the ratio, to assess the Taiwan government and the OECD governments the level of credit risk debt and to look for possible way of coping.

It conclude that just like mostly OECD countries, Taiwan has been caught in the woods among the structural deficit. Comparing with most OECD countries, the difference is Taiwan have a more visible cyclical component. As European countries after 2000 to "debt brake" as the goal, an attempt to reduce the structural deficit countries, Taiwan have had the same experience of successful policies. To effectively control the size of the structural deficit, in addition to savings in expenditure, the result of the election campaign opened pointless check which caused the waste of resources is the focus of concern.

Keywords: structural budget balance, cyclically adjusted budget balance, budget deficit

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I. Introduction

The outbreak of the global financial crisis by the end of 2008, European financial and investment institutions had huge losses. European and American countries and even countries around the world were facing economic recession challenge because of reducing credit and international transactions. In order to save the financial system which almost paralyzed, European and American countries invested huge amount of government funds for financial and business relief action against recession; governments had introduced a variety of measures to revive the economy boom including reducing interest rates to expand credit and adoption of expansionary fiscal policy. These revitalization of economic prosperity programs, however, caused heavy fiscal burden on governments while promoted to stimulate the economy. It would have the far-reaching impact on long-term fiscal stability. Whether temporary relief measures or policies to revive the economy, it was actually substantial increases in government’s spending and decreases in revenue. This was undoubtedly a major hit for majority of the Organization for Economic Cooperation and Development (OECD) countries which had been plunged into a long-term structural deficit.

According to the latest OECD statistics published in 2009 showed that since 1992 the public balances for average of all OECD countries were in the red exception of 2000; in addition to Canada, the major industrial(G7)countries had long been the budget deficit. Particularly after 2007, all major countries were affected by the financial crisis and the deficit rose rapidly as shown in Table 1. Only three years(2007 to 2009), the U.S. budget deficit ratio of GDP surged nearly five times from 2.8% to 11.2%, its magnitude was surprising; In terms of 2009 GDP (142,262 million U.S. dollars) to convert the U.S. government budget deficit of about 15,934 billion dollars, which is the highest level after the World War II. Congressional Budget Office (CBO) recently released information that the total federal budget deficit would reach 1.35 trillion dollars, equivalent to 9.2% of GDP, the budget deficit in 2011 is still 0.98 trillion, or about 6.5% of GDP ratio (CBO, 2010:2). By 2009 the federal government debt had reached 7.5 trillion U.S. dollars, accounting for 53% GDP ratio; estimated by the end of 2020, accumulated debt could climb to 15 trillion dollars, the GDP of 67% (CBO, 2010: xi). The long-term fiscal challenges is so critical that the U.S. government really should reflect on Buffett’s advice carefully that the United States may become a sharecropper's society's1.(Scurlock, 2007/2008 :21).

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1 Buffett, 2005 Berkshire Hathaway shareholders meeting, said the dramatic increase in the United States