

UC SANTA BARBARA

THE *Current*

July 1, 1999

Bill Schlotter

UCSB ECONOMIST INTERPRETS BUDGET FORECAST, INTEREST RATE INCREASE

President Clinton projected Monday that U.S. budget surpluses would reach \$5.9 trillion by the year 2015, enough to pay off the national debt and pump new life into Social Security and Medicare.

And on Wednesday, the U.S. Federal Reserve bumped the key interest rate .25 percent to 5.0 percent.

What does it all mean?

Henning Bohn, professor of economics at the University of California, Santa Barbara, can help us all figure it out.

Regarding Clinton's rosy projections -- or anyone else's -- Bohn advises a bit of skepticism.

"We should take all these long-range forecasts with a little grain of salt," he said.

Recent history teaches us that, Bohn said.

"If we look back five or 10 years, everyone was predicting huge deficits for many, many years to come," he said.

With the United States enjoying the second-longest growth spurt in its history, those predictions obviously did not hold true.

And it is unlikely the latest ones will either, Bohn said.

"The whole outlook in Washington is pretty optimistic," Bohn said.

"They all say that growth will continue.

There is no forecast of recession in any of these projections. ... But it would be unheard of if we didn't have a

recession over the next 15 years."

Even if the Clinton numbers wind up right on the mark, Bohn finds it unlikely the surplus will be used to pay off our national debt.

"Knowing politicians, they will find some way to spend it," he said.

Bohn said the quarter-point rise in interest rates is a good thing.

"The message they are sending is that they are serious about fighting inflation and they are willing to do whatever they need to do," he said.

Bohn can be reached for comment on these and other stories regarding U.S. economics by calling Bill Schlotter at the Office of Public Affairs (893-8735).

About UC Santa Barbara

The University of California, Santa Barbara is a leading research institution that also provides a comprehensive liberal arts learning experience. Our academic community of faculty, students, and staff is characterized by a culture of interdisciplinary collaboration that is responsive to the needs of our multicultural and global society. All of this takes place within a living and learning environment like no other, as we draw inspiration from the beauty and resources of our extraordinary location at the edge of the Pacific Ocean.