Economists Disagree on Debt Risk Solutions

By MICHELLE HIRSCH, The Fiscal Times
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Testifying before the Senate Budget Committee on Thursday, a panel of economists and budget experts agreed that the risks of an eventual U.S. debt crisis are high in the absence of any major federal policy overhauls, but differed sharply about the right time frame for aggressive action to curb spending.
"While it would be very prudent to lay out a clear, credible path to fiscal sustainability now, I wouldn't begin that process in 2011," said Mark Zandi, chief economist at Moody's Analytics. "The recovery is still very fragile and, in fact, imposing fiscal austerity in 2011 would be working at cross-purposes with your own actions. The tax cut deal in my view was very positive and sealed the deal for 2011 and 2012." The economy is still improving, he added, and the debt ceiling would have no impact on the financial markets and the economy until 2012 or 2013.
Chris Edwards, director of tax policy studies at the Libertarian Cato Institute, cautioned Zandi and the committee that with or without the tax cuts, it's time to start spending less. "There's always going to be an excuse to not cut spending," he said. "The longer we wait, the higher the federal debt becomes. It's going to be harder to solve the problem."
Edwards said he was particularly worried that the deficit would stifle resources in the private sector. "Cutting federal spending moves resources from the less efficient government sector to the more efficient private sector," he added.

Zandi said he saw no evidence that the current budget deficit is hurting private investment. "In fact, I think the large budget deficit is helpful in that it's supporting demand." He explained that an investment expensing provision of the tax cut extension deal that the Senate passed in December would support investment in 2011 and create jobs.

'Window of Opportunity'
The chairman of the Senate Budget Committee, Kent Conrad, D-N.D., didn't seem particularly comfortable with Zandi's calls to leave spending cuts off the table until 2012 or 2013, especially after last year's midterm elections, when voters overwhelmingly sent more deficit hawks to Congress. "My experience around here is, you better act while you've got the window of opportunity," he said. "[We] need to take a series of votes now to make these changes over time … This operating year-by-year is one of those things that I think gets us into trouble."

House Budget Committee chairman Paul Ryan, R-Wisc., issued a new proposal Thursday to pare down spending immediately to cut nonsecurity federal spending by almost 20 percent. His plan would bring spending down to "pre-stimulus, pre-bailout levels," with claims it would save the federal government $74 billion in the remaining fiscal year2010's budget. "Given the amount of power that Paul Ryan has been given, and that any spending level changes need to be approved by the House, the larger question is, can the House move a spending bill that keeps spending at current levels," said Ethan Pollack, policy analyst at the left-leaning Economic Policy Institute. "For procedural and political reasons, I don't think that's the case this time around."

Labor Department data out Thursday morning showed the number of people applying for jobless benefits dropped by 42,000 last week to a seasonally adjusted 415,000 — considered to be in line with moderate job growth. Though the new figures show applications have fallen far below the 651,000 peak they hit in March 2009, when the economy was at a low point, economists agree the country is not entirely out of the woods. Labor economists say unemployment benefit applications need to dip below 375,000 before the unemployment rate can drop significantly.