Market News International

The Main Wire

July 18, 2011 Monday 4:36 PM GMT

US Conservative Economists: Spend Cuts Can Solve Fiscal Crisis

LENGTH: 484 words

DATELINE: WASHINGTON

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Cutting government spending may be the most efficient way to solve the complicated and urgent debt ceiling crisis, two conservative economists said Monday.

Economist Dan Mitchell of the Libertarian Cato Institute and Kevin Williamson, deputy managing editor of the conservative National Review magazine, spoke in wake of Sen. Tom Coburn's proposal for a deficit reduction plan which calls for $9 trillion of reduction over 10 years, including $1 trillion in tax expenditures.

Mitchell said "Coburn is getting or trying to get something done in the spending side of the lever, which is good."

Coburn's plan induces cuts on the defense department as well as other government agencies, and curbs Medicare, Medicaid, and Social Security, while at the same time closing tax loopholes.

Mitchell said, "By cutting spending, we mean that government spending will still increase annually but not at as fast a pace as it has previously."

But the economists downplayed Coburn's revenue proposals.

"The moment you put taxes on the table the debate becomes unfriendly," Mitchell said. "In the real world of Washington putting taxes on the table is a substitute for a good fiscal policy."

On the current White House effort to forge a deal that raises the debt limit before the August 2 deadline, with the "biggest possible deal" on deficit reduction that includes spending cuts and closing tax loopholes, Mitchell said it is most likely a deal would include "50% tax increases and 50% spending cuts."

But neither economist were not optimistic that a deal will be reached before the August 2 deadline, and like the administration warned of the potential for dire consequences.

"There is going to be a point where some markets will stop loaning us money," Williamson said. "This is going to cause real disruption, and not just economic disruption."

And Mitchell said: "The IMF can bail out Greece, but it cannot bail out the U.S."

Comparing the current U.S. fiscal situation to those past of other nations, Mitchell said tough spending cuts were able to move debt levels out of "red ink."

"In 1992 Canada was in deep fiscal trouble. Canadian officials put their government on a diet, and from 1992-1997 government spending rose only 0.8% a year, which completely erased their budget deficit and turned record levels of deficit into small surpluses," Mitchell said.

Mitchell also cited President Bill Clinton's spending cuts in which the government's spending rose only 3% annually between 1994 and 1999 which reduced America's $200 billion deficit. He did not mention the tax increases during the Clinton administration.

"In the past Congress has raised taxes and it didn't lead to a lower deficit," Mitchell said.

Williamson echoed Mitchell's remarks, saying "taxes really do not matter all that much because spending is what determines the level of taxes."

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