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ACCF Scholars Weigh In on U.S. Budget Crisis

The unveiling of President Barack Obama's 2011 budget has fueled discussions among many policymakers and renowned academics on the fiscal future of the United States. The snowballing federal debt is the key concern for several members of the ACCF's Board of Scholars. There is a consensus among academics that running a deficit during recessions and/or wars is sound economic policy. However, problems arise when deficits grow to unsustainable levels of debt. ACCF scholar and Harvard Professor of Economics **Gregory Mankiw** explained the issue in a recent *New York Times* op-ed:¹

Because of technological progress, population growth and inflation, the nation's income and tax base grows over time. If the government's debts grow at or below that pace, servicing the debt will not become a major problem. That means the government can run budget deficits in perpetuity, as long as they are not too large... The troubling future of Mr. Obama's budget is that it fails to return the federal government to manageable budget deficits, even as the wars wind down and the economy recovers from the recession... As a result, the government's debts will grow faster than the economy. The administration projects that the debt-to-G.D.P ratio will rise in each of the next 10 years. By 2020, the government's debts will equal 77.2 percent of G.D.P.

The growing government debt will have a significant negative impact on future U.S. economic growth. Moody's Investors Service issued a warning on February 3, 2010 that the triple A sovereign credit rating of the U.S. would come under pressure unless economic growth was more robust than expected and tougher actions were taken to tackle the country's budget deficit. **Glenn Hubbard**, an ACCF Scholar and Dean of Columbia Business School, discussed the negative connotation

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Hon. Michael J. Boskin
Stanford University



Hon. R. Glenn Hubbard
Columbia University



Hon. N. Gregory Mankiw
Harvard University

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of the debt on future U.S. economic growth in his *Wall Street Journal* op-ed:²

Today our productivity growth is imperiled by the anti-investment tilt of the president's budget plan for escalating federal debt. Even conservative estimates of effects of federal debt on interest rates (by Eric Engen of the Federal Reserve and me in the 2004 National Bureau of Economic Research Macroeconomic Annual) suggest that the last Obama budget blueprint would lead to a one-percentage-point rise in Treasury interest rates as the economic recovery takes hold. The consequence – lower business investment and real GDP 4% lower than it would otherwise be by the next presidential election – compromises our future.

Michael J. Boskin, ACCF Scholar and Professor of Economics at Stanford University, echoes Mankiw and Hubbard in his *Wall Street Journal* op-ed and warns about other potential problems:³

Such vast debt implies immense future tax increases. Balancing the 2015 budget would require a 43% increase in everyone's income taxes that year. It's hard to imagine a worse detriment to economic growth... Two factors greatly compound the risk from Mr. Obama's budget plan. He is running up this debt and current and future taxes just as the baby boomers are retiring and the entitlement cost problems are growing, which will necessitate major reform... And Mr. Obama's programs increase the fraction of people getting more money back from the government than the taxes they pay almost to 50%, just as the demographics on an aging population will drive it up further. That's an unhealthy political dynamic.

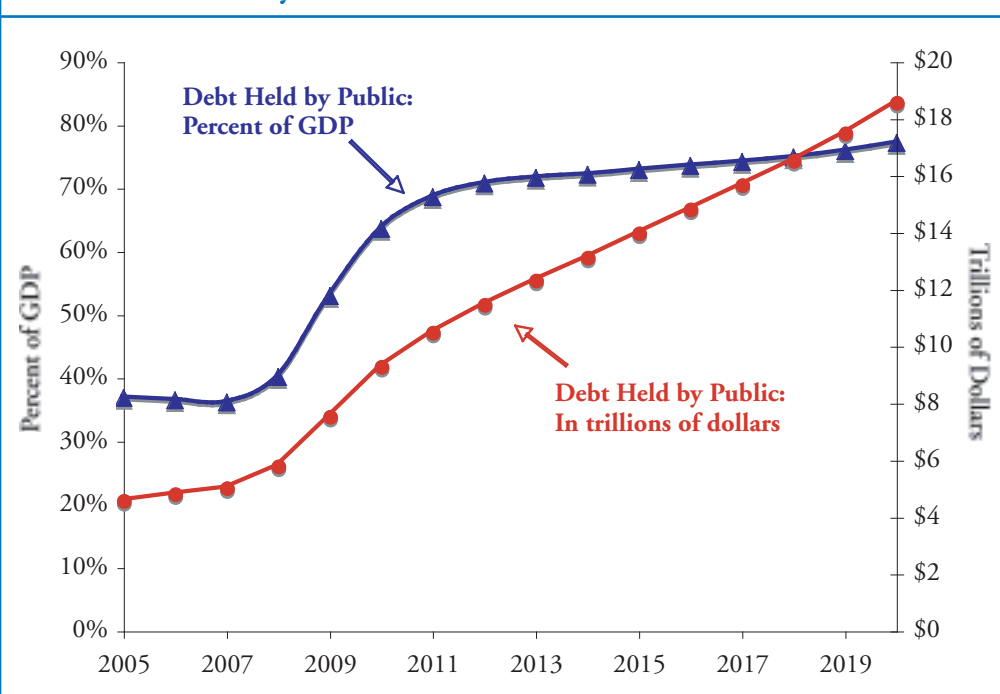
Professor Hubbard, in his op-ed, proposes a path toward lower deficits and more effective government. His plan has three important elements:

- Introduction of specific targets for reducing discretionary spending;
- Slowing the growth of entitlement spending on Social Security and Medicare, such as shaving 1% per year from projected entitlement growth;
- Broad-based tax increases, such as introduction of a consumption tax.

The ACCF will continue to provide a forum for positive solutions to the challenges facing policymakers as they grapple with the issue of slowing the growth of the burgeoning federal debt. Strong economic recovery and job growth depend upon our finding solutions that do not reduce incentives to work and to save. Without strong capital formation, the U.S. economic position and influence in the global economy will diminish.

1. *What's Sustainable About this Budget?* The New York Times, February 14, 2010.
2. *Toward a Different Fiscal Future*, Wall Street Journal, February 8, 2010.
3. *When Deficits Become Dangerous*, Wall Street Journal, February 12, 2010.

Federal Debt Held by the Public



Source: "Budget of the U.S. Government, Fiscal Year 2011," Office of Management and Budget.

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ACCF Engages the States on “Cap and Trade”

Throughout January and February the ACCF continued its effective efforts to educate business leaders, policymakers and the media around the country on the detrimental impact federal legislation like the Waxman/Markey bill (“The American Clean Energy and Security Act of 2009,” H.R. 2454) could have on the economies of their respective states. **Dr. Margo Thorning**, ACCF senior vice president and chief economist, discussed the ACCF/NAM analysis of the Waxman/Markey bill at conferences and meetings around the country. The study assesses the impact of the Waxman/Markey bill on manufacturing, jobs, energy prices and the overall U.S. economy for the U.S. and all 50 states. For the complete study, see <http://www.accf.org/publications/126/accf-nam-study>.

Dr. Thorning participated in a teleconference sponsored by the National Association for Business Economics Regional/Public Utility Roundtable in January where she reported on the findings of the ACCF/NAM analysis of the Waxman/Markey bill. In addition, she spoke before some 200 business leaders and residents at the Siouxland Industrial Roundtable where she presented background on the impact of the Waxman/Markey bill on the region at a forum hosted by the North Dakota Policy Council. The study, *Cap & Trade and North Dakota's Economic Future* authored by Dr. Thorning and **Pinar Çebi Wilber, PhD**, ACCF economist, is available at http://www.policynd.org/images/uploads/ND_Cap_and_Trade.pdf. Dr. Thorning and Dr. Çebi Wilber prepared similar studies of the impact of “cap and trade” on Arkansas (http://www.arkansaspolicyfoundation.org/policy/apf_cap_and_trade_study.pdf) and on Montana (http://www.montanapolicy.org/files/pdf/Montana_Policy_Institute_Cap_Trade_Study_2010.pdf).

Dr. Thorning was the featured speaker at a briefing on the impact of the Waxman/Markey bill for the media and supporters of the Texas Public Policy Foundation on February 18 in Houston. At the briefing, the Foundation released a new Texas-focused report on *How Climate Change Legislation Would Impact on Economic Growth and Jobs in Texas* which illustrated how “cap and trade” legislation could affect the Texas economy, economic productivity, employment and income. The study was prepared by Dr. Thorning and Dr. Çebi Wilber. For a Fact Sheet on the report, see <http://www.texaspolicy.com/pdf/2010->



Senator John Cornyn (R-TX) and Dr. Margo Thorning at the Texas Public Policy Foundation press conference.

[Waxman-Markey-FactSheet.pdf](#). Dr. Thorning also joined Senator John Cornyn (R-TX) at a press conference that focused on the new study. *The Houston Chronicle's* coverage of the Foundation's release of the study cited her comments on the impact of climate legislation on the Texas economy.

Media around the country interviewed Dr. Thorning on the impact of “cap and trade” in January and February. Montana radio stations KMMS and KGVO interviewed Dr. Thorning on the negative impact “cap and trade” would have on the state. Sioux City, IA's KTIV TV (NBC), KMEG TV (CBS) and KCAU TV (ABC) featured her perspective on the impact of “cap and trade” on the region and the *Sioux City Journal* published Dr. Thorning's op-ed, “New Year's Resolution: It's Time for a Fresh Look at Climate Change Policy.” (To read, see <http://www.accf.org/news/123/new-years-resolution-its-time-for-a-fresh-look-at-climate-change-policy>.) Bismarck television stations KXMB TV (CBS) and KFYZ TV (NBC) both ran segments with her remarks at the press conference and the *Bismarck Tribune* featured findings from the ACCF's research on “cap and trade.” The Anchorage radio station KBYR interviewed Dr. Thorning on the Administration's proposals for higher taxes on energy companies and their impact on the growth of Alaska's pension funds.

Professor Bhagwati Named ACCF Distinguished Fellow

Noted international trade economist and University Professor, Economics and Law, at Columbia University **Jagdish N. Bhagwati** was named Distinguished Fellow of the ACCF Center for Policy Research. Professor Bhagwati, a member of the ACCF's Board of Scholars, is also a Senior Fellow in International Economics at the Council on Foreign Relations. He is regarded as one of the foremost international trade economists of his generation and a leader in the fight for freer trade. The author of more than 300 articles and over 50 volumes, Professor Bhagwati also writes frequently for *The New York Times*, *The Wall Street Journal* and *The Financial Times*, among other publications. Five volumes of his scientific writings and two of his public policy essays have been published by MIT Press. Professor Bhagwati has received several prizes and honorary degrees, including

awards from the governments of India and Japan. His volume, *In Defense of Globalization*, was published by Oxford University Press in 2004 to worldwide acclaim.

The ACCF Center for Policy Research, the public policy think affiliate of the American Council for Capital Formation, established its Distinguished Fellows Program in 1994 to bring economic, regulatory, energy and environmental policy research by leading public policy scholars to the attention of policymakers and opinion shapers in Congress, the Administration and the media. There is a continuing need to help clarify the economic impact of such policies and provide guidance for policymakers.



Spotlight Is on the U.S. Economy at 171st ACCF Economic Policy Evening

Members of Congress and the media as well as business and association leaders came together on February 23, 2010 for the 171st ACCF Economic Policy Evening. The session focused on *It's Still the Economy: What Should the President and Congress Do or Not Do?* ACCF Evenings, now in their 28th year, have hosted more than 231 members of Congress and nearly 100 members of the Senate. Pictured left to right are: 1) **Ann L. Combs**, Principal, Vanguard, and **Mark Bloomfield**, ACCF President and Chief Executive Officer; 2) **Tyler Suiters**, Chief Correspondent, Clean Skies News TV, and **Representative Jim Himes (D-CT)**; 3) **L. Ray Harry**, Director, Environmental Affairs, Southern Company, and **Mark Mardell**, North America Editor, BBC News; 4) **Juliet Eilperin**, Staff Writer, *The Washington Post*, and **Stephen J. Ubl**, President and Chief Executive Officer, Advanced Medical Technology Association; 5) **Thomas S. Neubig**, National Director, Quantitative Economics and Statistics, Ernst & Young, LLP, and **Vanda B. McMurtry, Esq.**, Partner, Davis & Harman, LLP; and 6) **Senator George V. Voinovich (R-OH)**, **Janet Voinovich** and **Dr. Margo Thorning**, ACCF Senior Vice President and Chief Economist.