Guest Overview: Forum on Budget Deficits and Fiscal Policy

Charles H. Green I Atlanta - 02.12.11

In honor of the 250th anniversary Albert Gallatin's birth, a Swiss native who became the fourth and longest serving U.S. Treasury Secretary, Atlanta's Swiss Consul General Claudio Leoncavallo organized a forum to offer international perspectives on two timely topics on which Mr. Gallatin was quite outspoken: public debt and fiscal policy.

Emigrating to the U.S. at age 19, Mr. Gallatin was elected to the U.S. Senate only 13 years later. Venomous politics shortened his tenure, yet he later spent six years in the House of Representatives where he served as majority leader and founded the Ways and Means Committee.

Thursday's panel discussion, Feb. 10, at the Commerce Club was titled Balancing Act: A Dialogue on Public Debt and Fiscal Policy and gathered well-qualified panelists for an insightful discussion – Fritz Zurbrügg, director general of the Swiss Federal Finance Administration; Dennis Lockhart, president and CEO of the Federal Reserve Bank of Atlanta; Annabelle Malins, Her Majesty's consul general of Great Britain, Atlanta; and Glenn Campbell, the consul general of Canada, New York and head of their Economic Finance Program. I was selected to moderate the discussion.

Mr. Zurbrügg, a former International Monetary Fund official, explained the Swiss approach to resolve the creeping public debt and fiscal pressures in the early 2000s. The government crafted a constitutional restriction on debt growth that had sufficient flexibility for economic cycles, firm guidelines for making exceptions, and metrics that would ensure policymakers reviewed the results. When put to a popular vote, it received an enormous 85 percent approval among Swiss citizens and was implemented immediately.

While the plan has only been in place for seven years, results include a budget surplus in both good years (2004-2007) and bad (2008 – 2009). Mr. Zurbrügg cautioned that challenges still lie ahead with public entitlement commitments and an aging population.

As the panel's only central banker, Mr. Lockhart stated the obvious: he cannot discuss fiscal policy. He did add context to the conversation by defining the difference between fiscal (taxes, public expenditures and debt managed by Congress) and monetary policy (employment and price stability). While his remarks highlighted the need of independence for monetary policy and the Fed's traditional avoidance of commenting on fiscal matters, he gave a veiled hint that these traditions may be wearing thin.

In recent months, Fed Chairman Ben Bernanke has nudged lawmakers to restrain from using the U.S. public debt ceiling for political leverage. Mr. Lockhart noted that with the urgent need for stability, it is a critical time to manage public debt responsibly. "I have no intention of supporting, under political pressure, the monetizing of the debt," Mr. Lockhart said. That would be "a central banker's cardinal sin."

The British perspective offered by Ms. Mallins opened with a stark number that defined the government's dilemma: the interest alone on the U.K.'s public debt exceeded annual spending on education. She related how the initial move to correct this imbalance was accompanied by a popular mandate for change. The business community was also behind the belt-tightening because the government's swelling debt risked competing with private markets for capital.

With a current 10.1 percent annual budget deficit, the British government has targeted lowering it to 1.1 percent by 2015. Their formula is to roughly employ a 70 percent reduction in spending and a 30 percent increase in taxes to accomplish the goal.

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From left to right: Glenn Campbell, Canadian Consulate, New York; Annabelle Malins, British Consulate, Atlanta; Dennis Lockhart, Federal Reserve Bank of Atlanta and Fritz Zurbrugg, Director General Swiss Federal Finance Administration.

Canada faced a financial crisis in the mid 1990s when their public debt interest ate up nearly 33 percent of government revenues. As Mr. Campbell related, the government abandoned the tired old moniker of "efficiency" and "do-with-less" and set about to fundamentally restructure their public finance system.

After a complete reform of public employee benefit entitlements, reset of the transfer-of-payment priorities, and top-to-bottom justification of every department's budget, the Canadians eliminated their public deficit in three years. Today, they are lionized by the IMF as the "soundest banking system in the world."

The obvious conclusion to this conversation is that policymakers from all countries must balance public spending and occasional stimulants with accumulating public debt and future economic growth targets. Fiscal discipline and restraint exercised in prosperous as well as hard times will lead to a more stable global economy.

This article was contributed by Charles H. Green, Executive Director, Small Business Finance Institute, www.SBFI.org. His blog on business financing issues is found at www.AdviceOnLoan.com.