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Should Clinton Cut the Deficit or is there a Global Paradox of Thrift?

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1. INTRODUCTION

IN this paper we examine whether now is a good time for the United States to cut its budget deficit. This is an issue which featured prominently in the recent US Presidential campaign. Our findings can be summarised in the aphorism: 'Lord save me from sin, but not yet.' They partly justify President Clinton's policies: he has, rightly in our view, said 'not yet'.

We explore this issue both theoretically and empirically, and report results for both developed and developing countries. Our work makes use of the global econometric model, GEM, and shows the way in which such a model can be used to address issues of pressing practical concern. The results for developing countries, and the work underlying them, may be of particular interest in that they make use of a new, unique modelling system which allows macroeconomic issues for less developed countries to be addressed on a *regional* basis.

a. The Problem

Concern is mounting from a number of sources about the current fiscal policy position in the United States. President Clinton has committed himself to tackling

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