Borrowing, hence the budget deficit, can be useful if we use the borrowed resources productively.

There is no "monetarist position" on the budget deficit. Monetarism is mainly about the effects of money on inflation. Deficits have an effect on inflation—defined as the maintained rate of price change—only if they are financed by issuing money. Argentina, Bolivia, and Brazil are recent examples of inflations financed by money issued to pay for government spending.

In these or other countries with budget deficits equal to 15 percent of GNP or more, people observe that the government is unwilling to raise taxes or reduce spending; they expect inflation, so they resist holding domestic money. There is a flight from money, rapid money growth, and rising inflation. When the budget deficit was reduced, Argentina and Bolivia were able to reduce money growth and inflation.

Some economists argue that deficits must sooner or later increase money growth and produce inflation. Experience in most developed countries does not support this claim. An example is Italy, which managed in the 1980s to reduce inflation from 15 or 20 percent a year to 5 percent or less, while budget deficits have remained at 10 percent of GNP or more. At the Italian share of GNP, the U.S. budget deficit would be $600 billion. And while Italy is an extreme example, it is not a unique example of a country with a persistent budget deficit and a declining rate of inflation. Our own country and Japan are other examples. Inflation here has fallen from 10 percent to about 3 percent despite the budget deficits of the 1980s and 90s. Inflation in Japan was reduced to about zero at a time when the government budget deficits remained equal to 3 percent of GNP or more.

The lesson to be learned is that a country with a deficit can avoid inflation by borrowing to finance the deficit while slowing money growth. Should we, however, be concerned that, as in Mexico, Brazil, or Argentina, continued borrowing will pile up debts that we will have difficulty servicing? Will foreigners refuse to lend, forcing a rise in interest rates and an economic day of reckoning? Adam Smith warned that there is much ruin in a nation. Is it all about to come due?

Continuing clamor about the deficit obscures what should be the central issue. Borrowing, hence the budget deficit, can be useful if we use the borrowed resources productively. If the return on our investments, or the value we place on consumption, exceeds what we pay on the debt, we are made better off by borrowing to finance expenditures. Because our borrowing is in dollars and the dollar is not rigidly pegged, we do not face problems arising from a mismanaged foreign-exchange system as Brazil, Argentina, Mexico, and other large debtors did.

Some argue that the problem is that, as a nation, we are consuming not investing. Hence, we must pay future income for what is usually described as a consumption binge. We should not accept this argument at face value. There is reason to be suspicious of the published data and to question the
The great deficit debate continued

Ammunition for the deficit war, continued from page 5

shrinking the deficit and have warned against deficit spending for short-term growth.

The results of increased deficit spending could be disastrous. In just three years, an economic breakdown could hit the United States in the form of uncontrollable inflation or financial panic if the international community realizes that we are going to default on our debt.

The only way spending trends can be reversed is if Mr. Clinton makes a firm commitment to immediate action on the deficit. The deficit must be fought with the same resolve used in fighting a war. Mr. Clinton must declare this war immediately and embrace it as the country’s top priority.

Here’s how Mr. Clinton should fight the war against the deficit and debt:

First, he must take leadership and demand the assurance of the newly elected Congress that the deficit and debt issues will take first priority.

Second, he must go beyond the traditional political system for carrying our deficit reduction. In Putting People First, Mr. Clinton states, “our political system isn’t working. ...Washington is dominated by powerful interests of an entrenched bureaucracy.” To command an effective fight against the deficit and debt, Mr. Clinton must appoint as commanding general a U.S. business person with proven experience at cutting costs, streamlining operations, and pulling companies out of bankruptcy.

Mr. Clinton must assemble troops of top business experts to help tackle the debt crisis. These task forces should include individuals at our top management consulting and accounting firms, and specialists who have taught failing companies to manage cash flow. Most politicians don’t have any background in controlling costs or managing efficiency, so they need help from outside experts.

Third, Mr. Clinton must assemble congressional leaders into a deficit war cabinet, which can compose appropriate legislation to swiftly turn the recommendations of the business experts into action.

Throughout this process, he must mobilize the American people to support the debt-fighting initiative, to stop demanding more than our country can afford, and to accept the shared sacrifice this battle will require. There must be no sacred cows—especially in entitlements, which consume so much of our budget.

The election may be over, but our jobs as citizens have just begun. Each one of us must send our president and our newly elected representatives in Congress a strong, clear message that war on the deficit and debt must be this country’s number one priority, and that we will support them in making the tough choices necessary.

Any attempt at stimulating the economy through short-term deficit spending will have disastrous long-term effects. Mr. Clinton must commit to deficit reduction immediately, detail his plan, and take action on it during his first hundred days in office.

The success of his administration, the well-being of each and every American, and the future of this country rest on Mr. Clinton’s making this commitment.

Any attempt at stimulating the economy through short-term deficit spending will have disastrous long-term effects. Mr. Clinton must commit to deficit reduction immediately, detail his plan, and take action on it during his first hundred days in office.

The election may be over, but our jobs as citizens have just begun. Each one of us must send our president and our newly elected representatives in Congress a strong, clear message that war on the deficit and debt must be this country’s number one priority, and that we will support them in making the tough choices necessary.

Any attempt at stimulating the economy through short-term deficit spending will have disastrous long-term effects. Mr. Clinton must commit to deficit reduction immediately, detail his plan, and take action on it during his first hundred days in office.

The success of his administration, the well-being of each and every American, and the future of this country rest on Mr. Clinton’s making this commitment.

The deficit: A monetarist’s perspective, continued from page 7

accuracy of the reported measures of net investment. A larger issue is whether we should accept the argument at all. Consumption is not evil. There is no reason to see calamity if the public willingly chooses to consume more today and repay tomorrow. Indeed, most of us do just that when we buy a house and take out a mortgage. As a society, however, we should be concerned about biases in the tax system, in laws, in regulations, and in government spending that tilt total spending toward consumption and against investment. If there are such biases, we should correct them in the interests of efficiency. The gain from increased efficiency is worth having, whether the budget is in deficit or surplus.

There probably is a bias against investment and against government spending that tilts toward consumption. Government can reduce this spending. Tax changes in the 1986 act ended some inefficient special investment to consumption by substituting a broad-based consumption tax for the personal and corporate income taxes.

The fact that there are many different,