## *How I Learned To Love the Deficit*

"Measure, Theory, Fact, and Fancy: The Case of the Budget Deficit" by Robert Eisner, in *The Bulletin of the American Academy of Arts and Sciences* (April 1993), Norton's Woods, 136 Irving St., Cambridge, Mass. 02138.

The sense of alarm over the nation's mounting national debt is now so widespread that it is refreshing to read the occasional dissenter. One of these is Eisner, an economist at Northwestern University, past president of the American Economics Association, and a long-time critic of what might be called the "sky is falling" school of economics.

To whom is the government in debt? he asks. To the American people, largely through pension funds, insurance companies, and banks that have invested much of their wealth in government bonds. (Contrary to popular impression, only a small portion of the federal debt, about 12 percent, is owned by foreigners.) Indeed, Eisner asserts, the annual deficit "makes people in the private sector feel richer and spend more," and consumer spending fuels the economy. Such spending would cause inflation if the economy were operating near full capacity, but it is not.

Efforts to require a balanced budget are misguided, in Eisner's view. He suggests that the government instead ought to follow this "simple rule: The amount of debt you can reasonably sustain depends on your income." When mortgage lenders evaluate potential home-buyers, they use the debt-to-income ratio as a guide. With an estimated 1992 debt of $3 trillion (not including about $1 trillion held by the government itself) and gross domestic product of $6 trillion, the government's ratio is currently about 0.5. That is less than half of what it was at the end of World War II, he points out. Yet "we had a substantial postwar economic boom."

"The one seemingly sensible argument for reducing the deficit . . . ," Eisner says, "is that if you reduce the deficit, you'll have more saving and investment. . . ." This is the logic behind the warning of Ross Perot and many others that "we're spending our children's money." But when the deficit is properly adjusted for inflation, its delayed impact on the economy, and that part of it due to recession, Eisner says, it turns out that over the last 30 years, bigger deficits have been associated with *more* subsequent private investment.

In any event, he argues, the conventional measure of saving and investment is much too narrow. "It does not include government construction of roads, bridges, airports, sewage disposal systems, and the like, let alone investments in environmental protection." If an airline buys new planes, that is counted as investment, but if a new airport is built, that is counted only as government spending.

Washington, Eisner says, "does its accounting in a way that would horrify any businessperson. Other governments and virtually all private businesses separate capital expenditures from current expenditures." If capital spending were taken out (and depreciation put in), the $269-billion deficit of 1991 would have shrunk by an estimated $70 billion. If the $67 billion used for the savings-and-loan bailout—which really had nothing to do with that year's deficit, but simply made good on past guarantees—were also removed, the federal government's 1991 deficit would have been $132 billion. Adjusting that amount for inflation would have further reduced it by $85 billion.

But that is not all, says Eisner. State and local governments had a *surplus* of $30 billion in 1991. The total government deficit, therefore, was really only $17 billion. Which may explain why the sky has not yet fallen.

## *A New Golden Age?*

"A Case for Gold" by David P. Goldman, in *Audacity* (Spring 1993), Forbes Building, 60 Fifth Ave., New York, N.Y. 10011.

Persuaded by his economic advisers that it was an obstacle to prosperity, President Richard Nixon in August 1971 severed the last link between the dollar and gold. No longer would the United States back its dollars in the international marketplace with a commitment to convert