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Do Federal Deficits Really Matter?

Interview With Norman Ture Economic Consultant and Chairman of the Board, Institute for Research on the Economics of Taxation

The U.S. News and World Report article paired interviews with Rudolph G. Penner (Director, Tax Policy Studies, American Enterprise Institute) and Norman Ture (Economic Consultant and Chairman of the Board, Institute for Research on the Economics of Taxation) Dr. Ture's interview is presented below.

Q Mr. Ture, do budget deficits matter?

A Not very much. The notion that deficits crowed out the private sector's use of the nation's productive capability is simply wrong. It isn't deficits that do that. It is government spending and taxing that does that.

The deficits are only the accounting result of comparing expenditures against revenues. They have no active role in the economy.

Q So the President's projection of deficits that run into the hundreds of billions of dollars over the next five years poses no danger for the economy?

A The deficits reflect the failure of the administration and the Congress to bring government spending programs under control. That's their significance.

Q Should Congress and the administration reduce those deficits by reducing government spending?

A The Congress and the President should do what hasn't been done for a long, long time. That's to stop being concerned about the size of deficits and now be concerned about what the government does, how it does it and whether it should continue to do what it is doing.

Q So you think reducing the size and role of government is more important than reducing the size of deficits?

A I personally do. But my personal preferences are not what is at issue.

What public policy ought to be focusing on is: What is it that the government does? Are these functions appropriate? Are we doing them efficiently? Are we spending the right amounts of money doing them?

Q Many people believe that even though the deficit may not have been a problem during the recession, the projected large future deficits do pose the danger of reigniting inflation and raising interest rates once the recovery gathers strength--

A That fear is without any basis in fact or economic analysis.

We've had deficits of every kind and size you can think of. We've had them in good times; we've had them in bad times. There is no association to be found between those deficits, their total size, their change, their fraction of the gross national product or anything else you can think of and the rate of increase in the price level or the direction of interest rates.

Q If deficits do not have a direct effect on inflation and interest rates, do they have an indirect effect in their interaction with monetary policy?

A Deficits don't interact with anything. Deficits, to repeat, are an accounting result. They are not an active fiscal agent. Government spending is an active fiscal agent. Government taxes are an active fiscal agent. Deficits don't do anything.

Q Why, then, does Paul Volcker, chairman of the Federal Reserve Board, go up to Capitol Hill as frequently as he can and say one thing: "You must reduce deficits if you want interest rates to come down'?

A I'd hesitate to offer explanations for Paul Volcker's actions, but I would invite him to look at the facts. Take the year 1982. Even as the estimates of deficits in 1982, in 1983 and every future year were rising, and even as the actual deficit in fiscal '82 was going up, interest rates were coming down--first, just modestly and then plunging.

Q But we had a recession in 1982--

A That is so. Well, obviously the size of the deficit didn't have anything to do with the direction of interest rates. If deficits raise interest rates, why, when deficits were soaring, were interest rates plunging? At least you have to say, if you believe that tripe, that deficits are not the only thing that affects interest rates. They may not even be the important thing. In fact, in recent experience, they were not at all consequential.

Q Then you would oppose raising taxes to close the deficits at this point?

A That would be asinine. There is no tax that we could increase that would not be deleterious to recovery. And for every single dollar by which we raise taxes, we would reduce what funds are available for private investment by at least a dollar.

Q Do you oppose slowing the rate of growth in the military budget in order to lower the deficits?

A If defense spending is to be slowed, the last reason in the world why it should be is because of the deficit. It should be slowed only because it has been otherwise determined that it is unnecessary for national-security reasons.

Q Does the size of the deficits require an examination of the level of domestic expenditures?

A Not the size of the deficits. Those programs should be re-examined to determine whether or not they are worth-while and whether there aren't better ways of performing their functions--but not because of the size of the deficits. I can't think of a worse why to make decisions about what the government does.

Q So what do you say to all those political and private leaders who worry that a continuous string of high deficits will require a huge amount of government borrowing that will crowd out private credit demands, force interest rates back up again and threaten to abort the recovery?

A Poppycock is a good word. I haven't used that word in ages.

Balderdash is equally appropriate. That reasoning is without any basis in fact or analysis.

Q What should the President do now? What is your prescription for proper public policy at this point?

A The best thing he could do would be to return to his original economic-recovery program, as articulated early in 1981, and not do what he's doing now, which is an outright, full scale capitulation to the oldest kind of Democratic Party policy: Spend and tax.