

Deficit Madness

(aka Tell your children they'll be fine)

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RESEARCH FOR BROADLY SHARED PROSPERITY

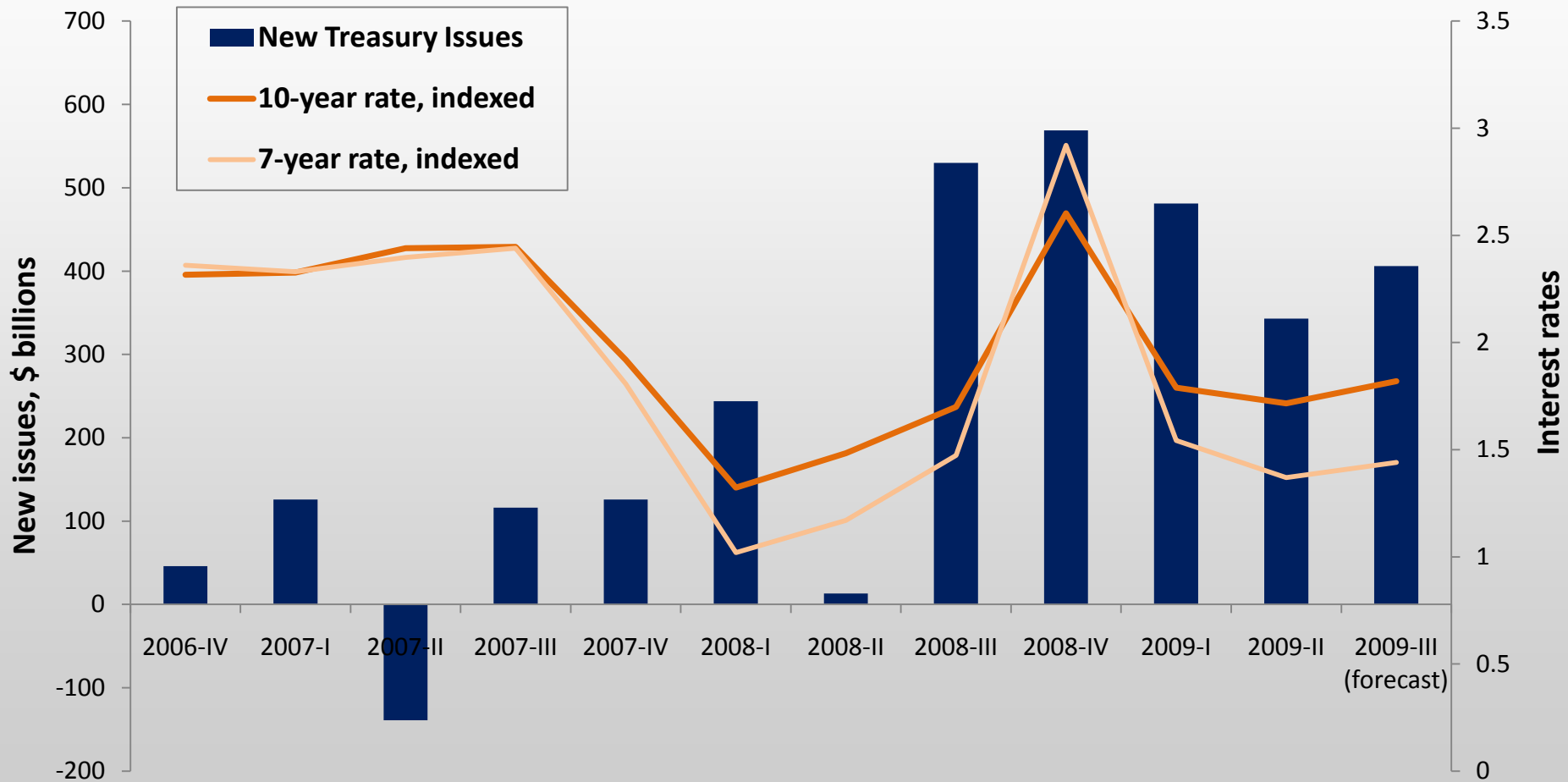
Don't Fear the (Increase in the) Deficit

- It was needed
- It helped the economy avert a depression
- It won't lead to
 - (1) interest rate spikes
 - (2) hyper-inflation
 - (3) a fire-sale of dollars on international markets
 - And if it does, good for us

Rising deficits helped the economy

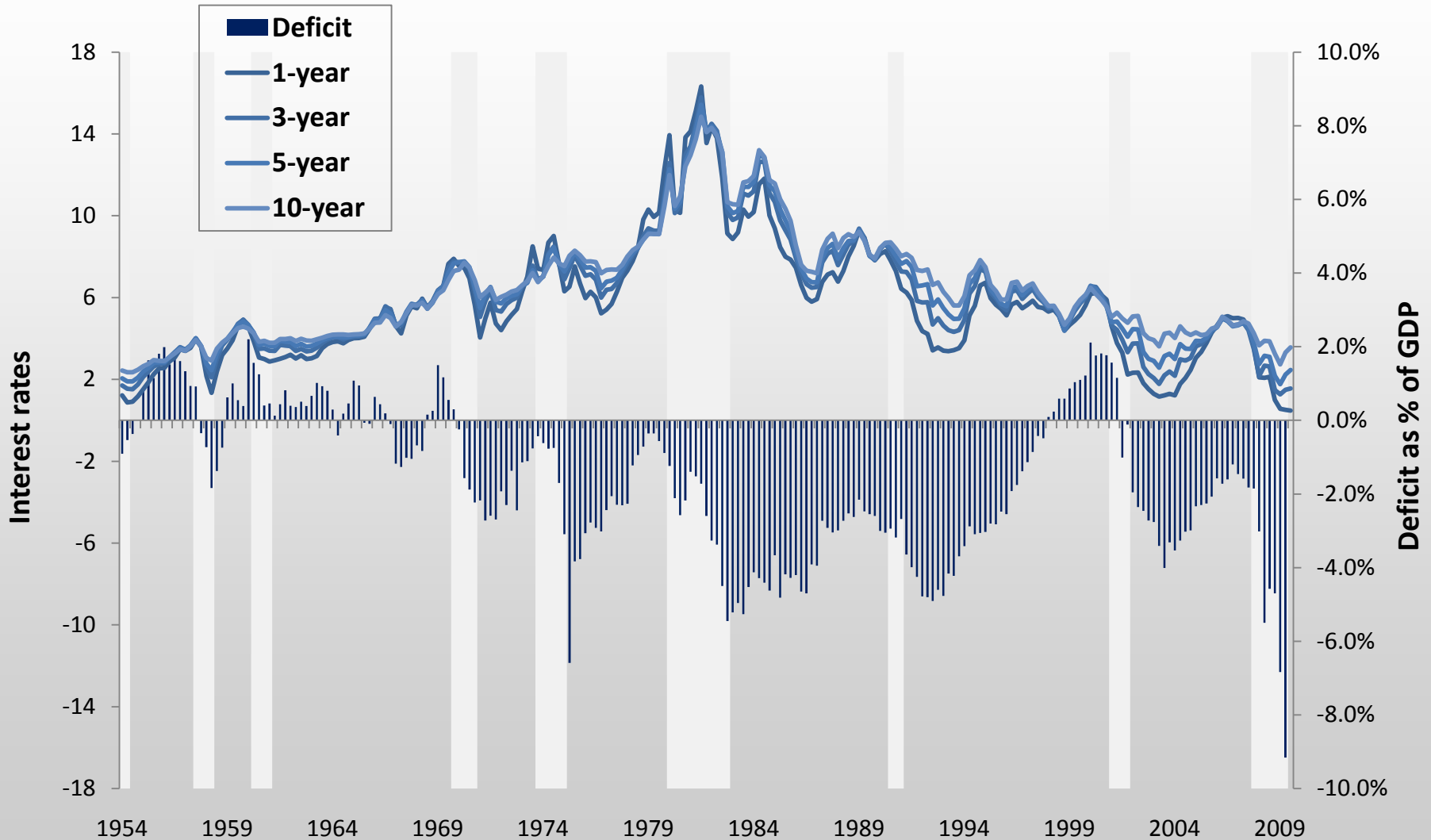
- Private spending swings from 104% of income to 94% of income between end of 2006 and beginning of 2009
- An 8% of GDP hole opens up in the economy
- Automatic stabilizers increase deficit by a bit over 5% of GDP
- Bigger initial shock than what occurred at beginning of Great Depression – this time, fiscal policy muffles, not amplifies, initial shock

Lots of new federal borrowing, stable interest rates



Source: Treasury Department and Federal Reserve

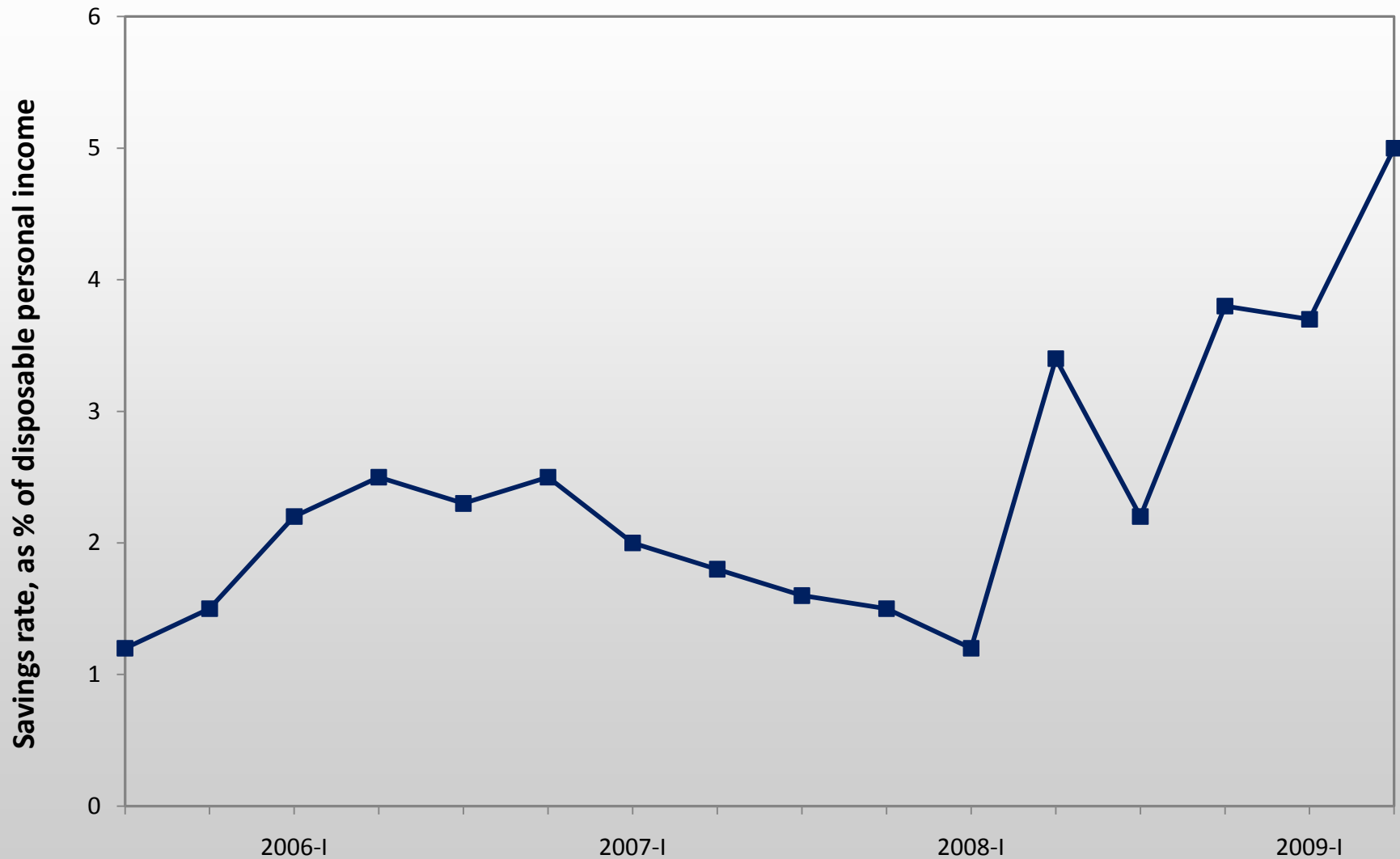
A fluke? Nope



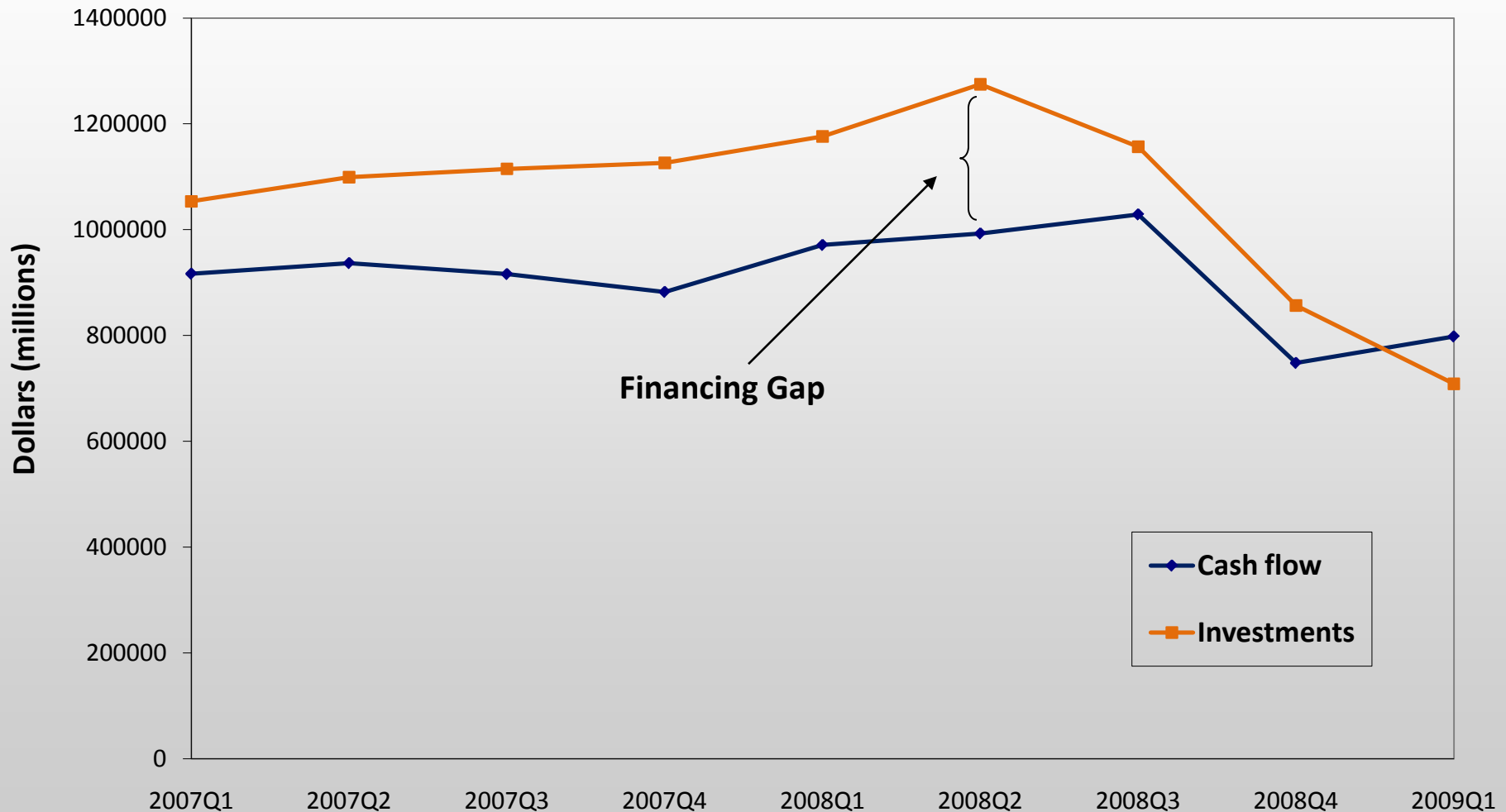
Quick story of deficit/interest rate link

- Public sector begins to borrow more – demands loanable funds
- Spiking interest rates (price of loanable funds)?
- Nope – private sector borrows less during recession, reducing demand for loanable funds
- Plus, this market has a supply side – savings.

Personal savings rate



Nobody around to 'crowd-out' from the capital markets

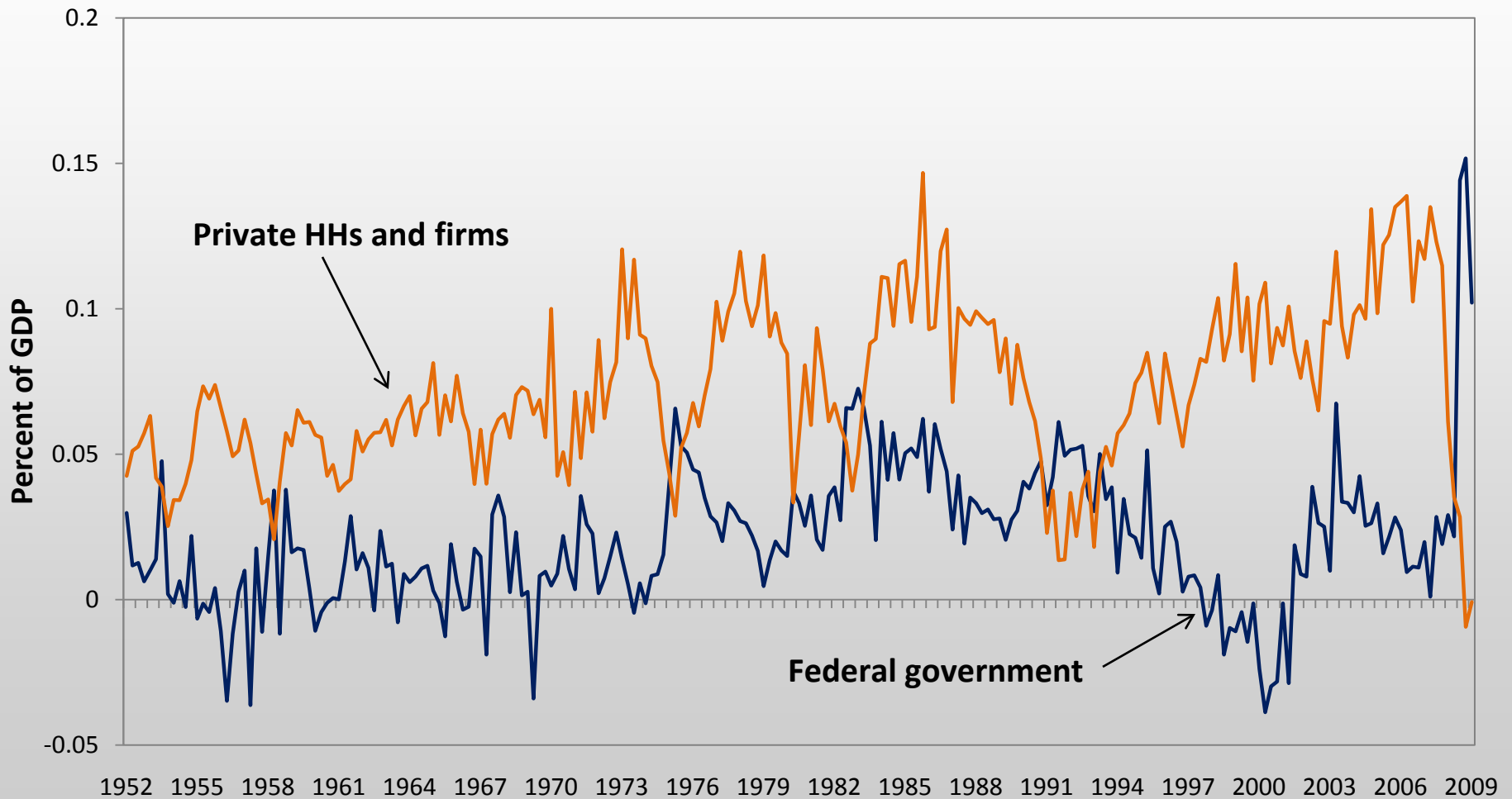


Worry about inflation?

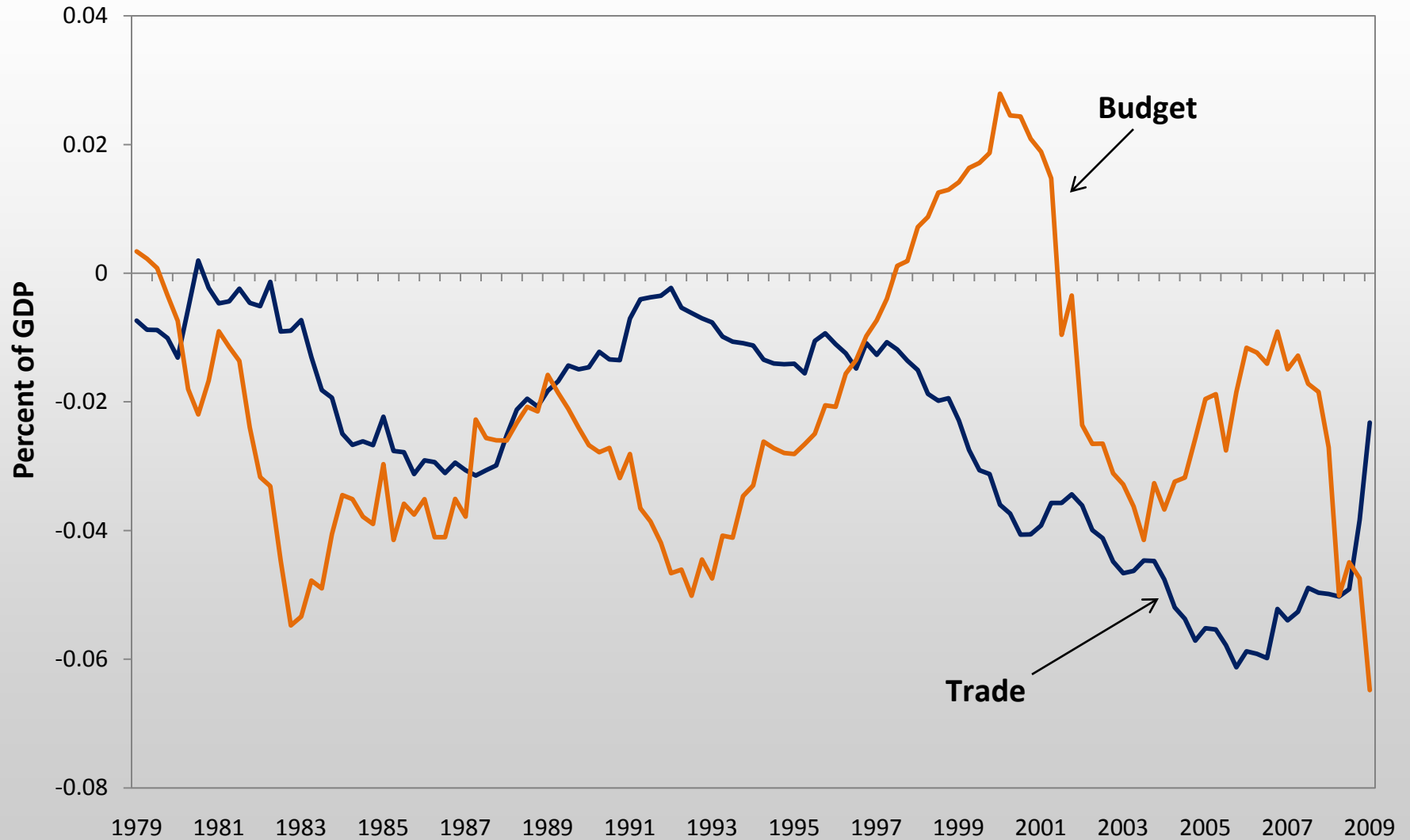


Source: Bureau of Labor Statistics

Who is financing these public deficits? We are.



Twin Deficits?



Won't our trading partners dump \$ on world markets? Let's hope so.

