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The budget deficit: Why it doesn't matter

The debate consuming Washington is a distraction.

By David L. Crawford

Both Republican and Democratic leaders hope the other guys will be blamed if they drive the economy off a cliff on Aug. 2. In a classic case of distracted driving, though, they're focusing on one of the least important economic issues we face: the budget deficit.

Many in Washington seem to think the deficit is important enough to risk throwing away the best credit rating in the world, which is exactly what they will be doing if they don't meet the deadline for raising the national debt ceiling. But they shouldn't be worried about the deficit for several reasons.

First, the deficit is an almost meaningless measure of the federal budget. No corporation would be allowed to account for its gains and losses the way the federal government does, which is simply cash out minus cash in. That would have many strong, profitable companies that borrow to invest reporting deficits every year. This deficit accounting ignores the extremely important difference between buying an apple and buying a bridge: The bridge will provide value for many years after the apple has been eaten.

Are we alarmed when a family with an annual income of $100,000 borrows $150,000 to purchase a $200,000 house? The pseudo-logic of the deficit debate says we should be concerned, because the family is spending more than twice its annual income on the house alone. But actual logic says there is nothing wrong with borrowing to finance the purchase of a durable good that will generate benefits for many years to come.

In addition, politicians' deficit concerns are obviously political. History shows that deficit hawks tend to shed their feathers whenever their own party takes over the White House. That irresponsible deficit they were complaining about last year? That was the other party's irresponsible deficit. *Their* deficit is different because it allows them to do things that need to be done.

Of course, we should be concerned about deficits when we can't finance them at reasonable interest rates. But this is not such a time. Today's federal government can borrow at the lowest rates since the 1950s.

Finally, and most importantly, the gravest economic problem facing the United States today is that, depending on how one counts, there are between 14.1 million and 21.2 million Americans who want jobs but don't have them. And there are another 8.6 million who are working part-time only because they can't find full-time work. If we could cut those numbers in half, we could generate $300 billion to $400 billion in new wages.

We could borrow all the money we need at very low rates and put people to work building needed infrastructure that would be valuable for years. Or we could waste the opportunity for the sake of someone's politically motivated notion of fiscal restraint.

Careful analyses by politically independent economists have shown that, contrary to the conventional wisdom, the 2009 federal stimulus package created more than two million jobs. Its only problem was that it was too small, but we can fix that. We need to raise the debt ceiling and get to work on a new, larger stimulus program, financed by government borrowing at extraordinarily low rates.

Spend, baby, spend.

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