Forbes

Gale and DeLong Debate: Is the Budget Deficit Even a Problem?

Howard Gleckman

January 13, 2015

Do deficits, or at least currently projected deficits, matter? It is an age-old question that's going to get renewed attention in a Congress where Republicans have made no secret of their desire to cut government spending.

Of course, cutting spending is not the same thing as reducing the deficit. And many in the GOP are far more interested in the former than the latter. But the economic consequences of deficits and debt will at least be a frequent talking point in the coming year. That's what makes a recent debate between my Tax Policy Center colleague Bill Gale and UC Berkeley economist Brad DeLong so interesting.

Their debate has taken place over two websites and several months. But essentially, it boils down to this: Bill thinks policymakers must eventually address long-term deficit and debt issues. Brad thinks the whole issue is a policy dead-end.

In a guest post for the Cato Institute back in November, Bill wrote that "a major priority should be to get our long-term fiscal house in order." While the fiscal gap does not need to be narrowed immediately, it can't be ignored. And he suggested several ways, mostly tax hikes, to do it. (full disclosure: I made a few editorial suggestions for Bill's original piece)

In December, Brad argued that worrying about long-term deficits is counterproductive and wondered why anyone would "downweight virtually any other economic policy priority in order to focus on the deficit–especially when you bear in mind that our political system seems to have a very difficult time focusing on the deficit in a constructive way."

The fiscal gap is really not that bad, he insisted. The deficit trend is largely downward, especially if you assume that Congress will eventually enact a carbon tax and that the Affordable Care Act will help control future health costs. And, he suggested, a focus on deficits now would be used to justify big domestic spending cuts, which he views as a very bad outcome.

Bill countered this way:

- Projected fiscal shortfalls are a real long-term problem.
- The fiscal gap is likely worse than it appears because it aims to maintain the current debt/GDP ratio, which is already too high.
- In the absence of action, debt is projected to rise further.
- Current and projected debt levels will significantly reduce long-term growth relative to historical levels.
- Notwithstanding his (rather uncharacteristic) optimism, future policy developments are "unlikely to be as positive" as Brad expects.
- Finally, even if the political system does misuse projections of the consequences of rising debt, economists should still do the analysis.

Brad got the last word, at least so far: With interest rates so low and foreign investors flocking to Treasuries, we ought to take the money and run—to build and improve public infrastructure as fast as possible. Why worry about deficits in the current environment? Long-term debt is a problem for future generations. Let them figure out how to address it. Besides, Bill's call to reduce the long-term debt is only ammunition for Republicans who want to cut social spending.

This is hardly the last we're going to hear about this issue, but it is an important debate that clearly describes two views about deficits and debt.

Btw, if you'd like to look at all the posts from Cato's forum on reviving economic growth (which also includes posts from my TPC colleagues Eric Toder and Donald Marron), click here.