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A recurring theme in the political debate regarding the wisdom of various anti-recessionary measures, e.g. middle class tax cuts, tax credits for new home buyers, accelerated depreciation and so forth, is: will the “long term” be compromised by politicians anxious to “jump start” the economy before election time?

The prevailing view among business leaders, media pundits and some economists now appears to be that economic problems facing the nation can be divided into two (perhaps mutually exclusive) categories.

The “short run” problem is the current business cycle contraction (and related mischief). The “long term” problem(s) are judged by most accounts to be much more formidable and bear directly on the future status of the U.S. as a player in the global marketplace.

Specifically, what are these “long term” problems and how do they threaten the competitiveness of U.S. industry in the 90’s and beyond?

Posing this question yields a diverse array of responses ranging from the poor quality of education in the U.S. to the comparatively abysmal saving rate of domestic households.

The most frequently mentioned candidate for public enemy number one under this heading is, however, the federal deficit and/or the national debt; hence the apparent conflict between short and long run policy objectives.

The conventional wisdom goes something like this: Keynesian style countercyclical fiscal measures, while they might be effective in stimulating the economy in the near term, will mortgage the nation’s future by exacerbating already out-of-control federal budget situation.

With the deficit now projected to be $398 billion in fiscal year 1992, prudence dictates fiscal restraint — recession notwithstanding.

In terms of generating public confusion and political demagoguery, the deficit issue has no rival.

Though there appears to be a broad consensus that the deficit is a “bad thing,” the reasons why are by no means clear cut. Press your dinner guest on this question and you are likely to hear something about “the burden on future generations,” the importance of “living within one’s means,” or other such appeals to the principles of sound finance.

Non-economists can be forgiven for providing a less than cogent explanation, however, as the economics professional remains deeply divided with regard to the impact of the federal deficit or national debt on variables such as interest rates, the pace of business investment, the distribution of income, inflation and the growth of real GNP and employment.

While making no attempts to sort out the controversy, I would offer readers a few general principles that (hopefully) will serve to demystify the deficit issue.

First, the use of debt to finance spending by households, firms or government units is not, in and of itself, to be viewed as unsound, irresponsible or otherwise indicative of some underlying moral weakness.

Of course the ends to which borrowing is applied matter. Borrowing to finance the purchase of a house, the pursuit of a law degree or the acquisition of long-lived plant and machinery is one thing; borrowing to finance a vacation, stock market speculation or corporate takeovers is quite another. That is, since at least as far back as Adam Smith, economists have distinguished between productive and unproductive uses of borrowing or credit.

The mere mention of government spending elicits a visceral response in many people these days. Yet many types of government expenditures contribute directly to the productivity of the private economy as well as enhancing the long term production possibilities of the nation.

The most obvious example is government spending for infrastructure or public overhead capital. No serious economist disputes that things like interstate highways, bridges, airports, sewage treatment facilities, navigable waterways and harbors are a vital and integral part of a modern industrial economy. Moreover, public overhead capital, like a law degree or a new factory, is an asset that yields economic benefits well into the future.

A third principle pertains to the peculiar accounting conventions that apply to the federal government. A deficit (or surplus, or profits and losses) is calculated by subtracting expenditures from revenues in a fiscal year.

Suppose you bought a new house this year. In calculating your expenses you will include only interest and amortization paid out in the current year, not the purchase price of the house. Similarly, Federal Express does not fully expense the cost of a new jet in the year it is acquired.

By contrast, federal expenditures for infrastructure, submarines, prisons or other long-lived assets are fully expensed against revenues in the fiscal year in which they are acquired.

The federal line item budget makes no distinction between current and capital expenditures.

Spending for the above-mentioned items is lumped into the same category as the salaries of military officers, a congressional junket, Medicare, food stamps and foreign aid.

The reader might ask: Suppose that federal capital expenditures were expensed according to the accounting procedures used in the private sector or at the state government level. Would it make a significant difference in terms of the magnitude of the Federal deficit?

The answer is: You better believe it.

As a hypothetical, assume that capital spending is equal to 13 percent of total federal spending and that public infrastructure, etc., is expensed (using a straight line method) over a period of five years. Apply this standard and you reduce the federal deficit in fiscal year 1990 by approximately $130 billion to $90.2 billion. We can quibble over the 13 percent figure. The point is that making sense of the deficit by way of analogy to household or business finance is very misleading due to, among other things, the idiosyncrasies of federal accounting.

In summary, a strong case can be made that a substantial increase in federal expenditures for public overhead capital makes sense from both a short and long run perspective. Spending for infrastructure means new, job-creating, and income-generating effects — the right medicine is a recession.

Moreover, a serious commitment to infrastructure development would attack the productivity head-on — in contrast to other measures (such as the proposed reduction in marginal tax rates on capital gains income) that rely on theoretically iffy incentive effects.

Though such a policy would likely increase the federal deficit, Treasury borrowing to finance capital spending is inherently more productive than borrowing to finance tax cuts.