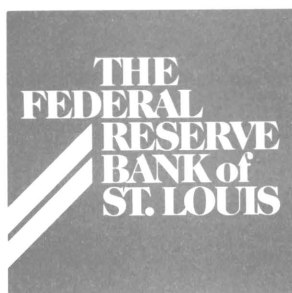
News Release



DOES THE DEFICIT MATTER?

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ST. LOUIS -- It's difficult to imagine an economic issue that has generated more controversy than the federal budget deficit. According to one Federal Reserve Bank of St. Louis economist, however, the budget deficit doesn't appear to matter, at least for the usual reasons cited by critics of large deficits.

In "IOU's From the Edge: Should We Worry About the Budget Deficit?" an article in the October issue of The Regional Economist, the St. Louis Fed's quarterly review of business and economic issues affecting the Eighth Federal Reserve District, Economist Kevin L. Kliesen examines the process for measuring the budget deficit and questions whether the deficit's harmful effects aren't greatly exaggerated.

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"The deficit has been blamed for everything from high interest rates and inflation to poor job creation and the trade deficit," says Kliesen. "While some of this blame may be legitimate, it's important to remember that other factors like monetary policy and international developments also play a role."

Besides asking if the deficit affects economic activity, we might first want to examine if the budget deficit is measured correctly in the first place. According to Kliesen, it may not be.

"The government puts operating expenses and investments in the same category, while private corporations use two categories: current and capital accounts," says Kliesen. "If the government used the same accounting methods as private corporations, it could define away the deficit by simply recategorizing certain types of spending."

Two additional articles complete the publication: "Banks and Investment Funds: No Longer Mutually Exclusive," by Economist Michelle A. Clark, who examines why commercial banks are entering the mutual funds industry in doves and "After the 500-Year Flood," by Economist Adam M. Zaretsky, who analyzes the effects of the Midwest flood on agriculture, business and banking.

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