The Debt and the Deficit: False Alarms/Real Possibilities By
Robert Heilbroner and Peter Bernstein. New York: W.W. Norton

self styled primer addressed to "...interested Americans who
are concerned about public policy issues,..." and "...our
fellow professionals..."

Not mainly concerned with the twin deficits except to point
out that there is less than meets the eye in the argument
that the fiscal deficit is a cause of the trade deficit.

Not well served by the passage of time: The deficit has been
pushed off of the front burner of policy concerns by the
looming problems of Eastern Europe.

A well written straightforward and quite unexceptional
exposition of the problems of defining the deficit and the
debt. There are some misleading propositions: we are all
used to thinking of the operations of the federal Reserve by
way of the bond market, the Federal Reserve and Central
Banking in general can function quite well when there is no
serious government debt.

Government debt need not be repaid, it only needs to be
refunded. But acceptance in refunding requires that income
be adequate to service the debt. I have called the type of financing arrangement in which interest is paid by adding to debt - the payment in kind financing of some of the leveraged buy outs of 1980's - Ponzi finance in honor of a Boston financeer of the early 1920's. In private accounts such capitalizing of interest enters the books as a decrease in the owner's equity account and an increase in indebtedness. The acceptability of these instruments obviously comes to an end when equity is dissipated. Heilbroner and Bernstein are correct in arguing that there is a need to think of government spending and debt in terms of the productivity of government spending. There is little doubt that an apt resource creating government spending will increase the productivity of private investment and labor but the gross national product is not the obvious denominator for government spending, the true denominator for government spending is the government's ability to raise money by taxes. An anti tax bias in public policy, the acceptance of a permanent Ponzi finance posture by the informed public as well as the political leadership is the issue. The market acceptance of payment in kind financing rests upon a bonanza view of prospects; the bonanza can be a peace dividend.

Need to make it clear that the Kennedy tax cut was in the context of a tax and spend system where there was a fiscal dividend.
Difficult dual objective. Occasionally in the context of a volume addressed to the concerned public insights can be advanced that are of interest to the professional. The voice is humane, the tone is tolerant. There is little heat or divisiveness. Aside from being a lessons on how to carry on a civil discourse there is little of professional interest here. And eeven though they acknowledge that Mexico and Brazil no mention of Argentina fell into discord, they seemingly dont believe that there is away in which the United States can turn into another Argentina.

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