

CHINTAMAN DESHMUKH MEMORIAL LECTURE

CENTRAL BANKS AND GOVERNMENT BUDGETS

by

*Professor JAMES TOBIN*

*Yale University, New Haven*

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James Tobin

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### Requisites of independence of monetary from fiscal policy.

As my title suggests, I propose to discuss with you the mix of fiscal and monetary policies, national and international. The very concept of a policy mix presupposes that governments and central banks jointly enjoy some freedom of choice, that they can set fiscal and monetary instruments independently one from the other. This condition is not met to any significant degree in most national economies, for reasons I shall mention briefly below. But it is met in the large developed countries whose policies and performances decisively shape the course of the world economy-- the "locomotives" of North America, Western Europe and Japan.

Of course, the policy choice of each of these nations is in some degree constrained by international conditions, and thus by the policies of the other major economic powers. But the United States can certainly choose among a menu of differing combinations of fiscal and monetary instruments. And so can West Germany, the key country of the European Economic Community, and Japan. The choices of these three locomotives, or more broadly those of the seven governments of the annual economic summit meetings, or still more broadly those of the members of the Organization for Economic Cooperation and Development (OECD), determine the fiscal-monetary policy mix of the advanced capitalist democracies as a group.

The capacity to choose a policy mix obviously requires that government budget deficits need not be financed wholly by printing money, whether base money created by central bank lending to the government or "low-powered" money created by other banks. There must be instruments of public debt that are neither monetary nor automatically monetizable. Those instruments must not be perfect substitutes for base money as bank reserves or for currency and bank deposits as means of payment. Their prices and interest rates must be variable, not pegged by open-ended commitments of the central bank or the banking system to buy and sell them. By maturity, denomination, and risk of capital loss, these instruments must be differentiated from base money and its close substitutes. Where these instruments and associated financial institutions, markets, and technologies are absent, budget deficits determine the growth of money supplies, and fiscal policy is indistinguishable from monetary policy.

Even when an independent monetary policy is technically feasible, the political means and will to use monetary policy instruments independently of public borrowing requirements may not exist. Quasi-constitutional provisions to insulate central banks from governments frequently provide the means and will to break the fiscal-monetary link. The cost of arrangements which assign fiscal and monetary decisions to separate policy-makers is that no conscious coordinated choice of the policy mix is made.

I propose to discuss the macroeconomic consequences of different mixtures of monetary and fiscal policies in the major developed economies, particularly the United States. I apologize

for the parochialism, enforced by the limitations of my knowledge. But since those policies, especially today, have world-wide repercussions, I hope the topic is of general interest. As usual in macroeconomics, it is necessary to distinguish short and long runs. In short run fluctuations of business activity, the policies affect aggregate demand, production, unemployment and capacity utilization, interest rates, and prices. In longer runs when output is constrained by available resources and their productivity rather than by demand, the policy mix affects the accumulation of capital, the path of economic growth, and the trend of prices. I start with the short run.

Effectiveness of demand management policies.

These days any economist who takes seriously the theory of short-run demand management, stabilization policy, must begin by showing awareness of fashionable theories that the economy is not manageable, that systematic demand policies are necessarily ineffective, that business cycles are the tracks of moving equilibria. These are the propositions of the self-styled new classical macroeconomics, logically derived from marrying old-fashioned competitive price-cleared markets to new-fangled rational expectations. This elegant revival of neoclassical economics appeals to professional theorists and sharpens their tools. But the explanations it contrives for the commonly observed facts of business fluctuations are tortuous and implausible.

Recent events have not been kind to the new theories. They had argued that, since only monetary surprises have real effects on output and employment, an announced credible policy of mone-

tary stringency would bring disinflation without tears. But Mrs. Thatcher's determined austerity in Britain and Paul Volcker's well-advertised monetary contraction in America, to mention only two examples, inflicted no less real damage to their economies than previous disinflationary recessions in the bad old Keynesian days. Demand management also worked according to Keynesian blueprints in the United States recovery of the last twenty-six months. The contrast with economies of Europe and even Japan, where governments have deliberately eschewed expansionary macro-economic policies, is striking and instructive. I shall proceed on the assumption that demand management policies do matter and do work.

#### Measures of monetary and fiscal policies.

To discuss the fiscal-monetary policy mix, one needs in principle to define measures of the two policies. Since there are several instruments for each of the two kinds of policy, it is not strictly possible to describe either of them by a single measure. For monetary policy, however, the supply of base money, or of bank reserves, will do for most purposes.

The problem is more severe for fiscal policy. What we would like is a measure of the direct contribution of the budget program to aggregate demand, or equivalently to the excess of national investment over national saving. The budget deficit is commonly used for this purpose, but it is a poor measure for several reasons. The deficit is endogenous: the same budget program, that is the same legislation authorizing expenditures and levying taxes, will yield higher deficits when the economy is

weak than when it is strong. The "structural" deficit-- the contemporary term for what in happier and more optimistic days was called the full-employment deficit-- is an improvement. It eliminates the cyclical endogeneity by estimating the deficit at a constant reference level of unemployment. But it does not allow for the fact that different items in the budget have different demand impacts even though they contribute equally to the structural deficit. The spending multipliers of tax cuts and transfers are not the same as those of expenditures for goods and services, but generally lower; and within those broad budget categories there are specific differences. A suitably adjusted structural deficit, with items in the budget weighted by their specific multipliers, is the preferable measure, but it has never caught on.

Monetary and fiscal instruments as substitutes in demand management.

Is it really possible to maintain aggregate demand by different combinations of monetary and fiscal policy? Is fiscal stimulus really an effective substitute for monetary stimulus? The standard Keynesian argument is that fiscal expansion--extra government purchases of goods and services or transfers or tax reductions--will, like any other positive shock to aggregate demand, increase the velocity of base money or any other monetary aggregate. Part of the mechanism is an increase in interest rates, inducing businesses, households, and other agents to economize their holdings of money. My reading, admittedly prejudiced, of the monetarist-Keynesian debate of the 1960s is that professional consensus accepts interest-elasticity of demand

for money on both theoretical and empirical grounds. However, the United States financial system is being made more monetarist by the payment of market-determined interest rates on checkable deposits.

Another source of skepticism regarding the demand-stimulating efficacy of fiscal measures is the view that government debts "are not net wealth" because taxpayers will anticipate future tax liabilities of equal present value to service or pay off the debts. Elsewhere I have listed reasons-- liquidity constraints, human mortality, risk-pooling, among others-- why we should not take the Ricardo-Barro proposition seriously for practical purposes.

Meanwhile macro-econometric models continue to show significant multipliers for fiscal measures over runs of several years. Even more persuasive, perhaps, is the obvious contribution of the Reagan Administration's massive fiscal stimulus to the recovery of the American economy in 1983-84. Though intended and advertised as a package of supply-side incentives, the program turned out to be well-timed Keynesian demand stimulus on a scale that no Administration sympathetic to counter-cyclical demand management would ever have dared. And it worked.

There are, of course, limits to the possibilities of substituting monetary for fiscal policy, or vice versa, while keeping the total dose of demand stimulus or restraint unchanged. If interest rates are at floors set by Keynesian "liquidity trap" behavior or, for a small open economy in a fixed exchange rate regime, by international capital mobility, monetary instruments are impotent. If interest rates are already so high that demand

shocks can induce no further responses in demand for money, then fiscal instruments are impotent. These extremes will be evident to any student who can manipulate textbook "IS" and "LM" curves. There is plenty of room in between them.

How the fiscal-monetary mix is determined in practice.

Engineering a switch in the policy mix is admittedly a delicate and uncertain operation. No one can be sure of the exact terms of trade, or of the speeds of response to changes in the two policies. In practice nowadays fiscal decisions are made much less frequently than monetary decisions. Budgets are voted a year at a time, and the tax and expenditure legislations that determine fiscal outcomes affect budgets for several years ahead.

In contrast, a central bank operates almost continuously--the decision-making body of the United State Federal Reserve System meets regularly nine times a year and can convene more often if necessary. The central bank can respond promptly to information and projections about the state of the economy, taking into account along with other data actual and prospective fiscal policies.

Assuming that the makers of fiscal policy, the Administration and the Congress in the United States, and the central bank agree about the desirable macroeconomic path, a policy mix shift would occur as follows: The projected budget would be altered by tax and expenditure legislation, and the central bank would then continuously take the monetary actions necessary to stay on the desired path of output and prices. Substitution between policies would occur gradually, with some "trial and error." This proce-



dure cannot work if the central bank is committed to purely monetary targets independently of actual economic events and forecasts.

The foregoing discussion can be made concrete by reference to recent United States experience. In August 1982 the Federal Reserve, alarmed by the unexpected and increasing severity of the recession resulting from its unrelenting single-minded monetary crusade against inflation, took mercy on the economy. At the time Paul Volcker and his colleagues were deeply concerned by the Third World debt crisis and the dangers to financial institutions at home and abroad. In any case they suspended their targets of M-1 and other monetary aggregates and began to orient their policies to the path of the American and world economies. Their objective was to start a recovery, and they succeeded.

Came then the full impact of Reagan fiscal policies, as the tax cuts enacted in 1981 were phased in and the build-up of defense spending gained momentum. Under the fiscal stimulus, the pace of recovery appeared to the "Fed", and to Administration economists as well, to be dangerously fast. As the central bank acted to slow it, the tight money/easy budget mix produced high real interest rates and a high dollar exchange rate. On this interpretation, it is not accurate to say that the "Fed's" policy was a direct response to the fiscal policy, a deliberate decision not to accommodate the large deficits. Rather it was a response to the macroeconomic path as influenced by the fiscal policy, a decision not to accommodate so exuberant a recovery. Presumably the Fed would have done much the same if the same exuberance had reflected spontaneous private spending behavior and the federal

budget had been close to balance.

Now that the recovery shows signs of petering out prematurely, the Fed seems willing to ease enough to keep it going even though no actions to correct the budget outlook have been taken or are in prospect. If the Fed would act in similar spirit to save the economy from the contractionary short-run effects of budget tightening, then we could move to a new policy mix. It would help politically if the Federal Reserve made such intention clear to the Administration and the Congress, and it would help economically if they made it clear to the private sector. That would entail making public and permanent the de facto subordination of monetary-aggregate targets to macroeconomic objectives.

The policy mix and the inflation/unemployment trade-off.

The theory of policy set forth many years ago by Jan Tinbergen and Henri Theil raised the hope that enlarging the number of policy instruments could enlarge equally the number of objectives the makers of policy could achieve. If monetary and fiscal instruments are independently manipulable, we could hope to hit two macroeconomic targets at once. Indeed, given several instruments within each category, we might aspire to hit many targets.

The two most important short-run macroeconomic targets are inflation and unemployment. Can we not hold them both to acceptable rates by suitable choice of the fiscal-monetary mix? Alas, we cannot. Equality of counts of instruments and targets is, in Tinbergen-Theil theory, a necessary but not sufficient condition for achieving all the targets. If two or

more instruments' effects are distributed among the target variables' outcomes in identical ways, those instruments amount to no more than one in relation to the objectives of policy.

That, unfortunately, is the situation with respect to tools of demand management. What I call the "common funnel theorem" says that it is total aggregate demand, not the distribution of its sources, that determines the combination of outcomes for unemployment and inflation. It is the total size of a demand management package, whatever is its fiscal-monetary mix, that helps to determine the combination of output and employment results, on the one hand, and nominal wage and price movements, on the other. Relative to those two objectives, monetary and fiscal instruments are not independent but collinear.

In other words, demand management policies can together aim at a point on the short-run Phillips curve, but they cannot break the structural and institutional bond summarized in that relationship. The Phillips curve itself may shift about unpredictably-- although lately it has appeared alive and well, recovered from the supply shocks of 1972-80. However uncertain the position of the Phillips curve may be, the point remains that policy-based alterations in the composition of demand cannot produce a favorable shift in the curve.

How a tight money/loose fiscal mix temporarily lowers inflation.

The common-funnel proposition is a strong first approximation, but like most macroeconomic assertions no more than that. It is stronger the less open the economy. Changes in the composition of a given aggregate expenditure as between private consumption, domestic investment, government purchases, and net exports

will make a difference in overall wage and price movements. They may accentuate or relieve specific regional, industrial, or occupational bottlenecks and shortages. Many of these effects are unsystematic and transient; they depend on microeconomic circumstances that differ from one business cycle to another. They cannot be exploited by policy mix decisions.

The major systematic qualification to the pessimistic impossibility theorem occurs in an open economy with a floating exchange rate. A tight central bank monetary policy raises domestic interest rates, attracts internationally mobile funds, appreciates the home currency, and lowers the domestic prices of internationally traded goods. By itself it also lowers domestic demand, not only by the effects of high interest rates on domestic consumption and investment but also by the deterioration of the trade balance due to the currency appreciation. American experience since 1979 has been a spectacular illustration of this textbook scenario.

Expansionary fiscal policy can offset the decline of aggregate demand. A tight money/easy fiscal mix may therefore be a way of lowering the path of prices associated with a given path of real output and employment. This too is exemplified by recent American experience; the price level is probably 3-5% lower than it would have been with a policy mix that had kept the dollar from appreciating against other currencies in real value.

But there are serious limits to this use of the policy mix. The power of a given differential above foreign interest rates to attract funds diminishes as stock portfolio adjustments are

completed and only allocations of new flows of saving are at stake. In any case, a lasting effect on the rate of inflation, as distinct from the price level, would require an ever-rising interest rate, a steadily worsening trade balance, and a permanently growing government deficit. The gain on the price level from using the tactic once is non-recurrent. Indeed it is likely to be temporary, reversed when the currency returns to a sustainable foreign exchange value.

However, the improvement in the United States inflation outlook may be more durable, thanks to a fortuitous interaction between the policy mix and current structural changes in wage- and price-setting institutions. The industries hardest hit by the appreciated dollar include some which were anyway losing international comparative advantage. These happen to be highly unionized industries whose wage bargains formerly set patterns followed throughout the economy. The weakening of these industries and their unions may be a lasting favorable shift in the economy's Phillips curve.

Expectational effects may hasten the reversal of price reductions due to exchange appreciation. Markets could rationally regard the trade deficits resulting from the policy mix as unsustainable, and expect the exchange rate to fall. If so, it will gradually fall, and the expectation of decline will work against the interest rate attractions to mobile funds. However, the American experience has not yet validated this chapter of the textbook scenario; despite repeated forecasts that the dollar will decline because of concerns about high and rising current account deficits, the dollar stays high.

For a country as large as the United States, there are special limitations to this strategy. Short-term price effects are diluted both by the small weight of international tradeables in relevant price indexes and by the large weight of the country in determining international prices. Moreover, other countries need not stand still while a large country manipulates its macroeconomic policies. After all, one currency's appreciation is others' depreciation, and one country's disinflation is others' inflation. The policy mix in question is a "beggar-my-neighbor" tactic on prices, just as currency devaluations are "beggar-my-neighbor" tactics on employment. When all countries together try to use such tactics, none will succeed.

The welfare macroeconomics of the policy mix.

If we reluctantly discard the hope of using the macro policy mix to ameliorate the unpleasant short-run link of inflation and unemployment, we can split the choice of demand management policies into two separable decisions. The first concerns the total policy impact needed to achieve the desired path of aggregate demand, considering its joint consequences for output and employment on the one hand, and price levels and inflation rates on the other. The second decision, the mix decision, is the choice among the various combinations of policies capable of supporting the desired path. This second decision permits, indeed requires, criteria beyond the short-run objectives of demand management itself. These additional criteria will naturally concern the composition of national output, its division between governmental and private uses, or between consumption and

investment, or between domestic and foreign investment.

Underlying those choices are considerations of intergenerational equity, present versus future, and of the current distribution of wealth and income.

Analysis of the welfare macroeconomics of the policy mix was a contribution of the neo-classical neo-Keynesian synthesis proposed by American economists led by Paul Samuelson in the 1950s and 1960s. I paraphrase an important and famous manifesto of Samuelson: The nation can take a stabilization decision, fixing the total demand management dose to a desired feasible balance of its price and employment objectives. Independently of that decision, we can respect national priorities regarding resource allocation, intergenerational equity, and the distribution of wealth and income. We do not have to make governmental claims on national resources large relative to GNP in order to have full employment, because we can obtain the necessary demand otherwise, from low taxes, high transfer payments, or low interest rates. We don't have to slant distribution to the rich in order to encourage investment and capital accumulation, because we can achieve these goals by other fiscal and monetary tools. Nor do we have to rely on the consumption of wage-earners or of the poor to employ our productive resources; we can stimulate aggregate demand and employment in other ways.

The standard discussion of policy mix has been less general than Samuelson's manifesto. It has concerned the composition of output as between capital formation on the one hand, and consumption, private or public, on the other. This composition

depends on the policy mix in a fairly obvious way: A lower real interest rate achieved by a more accommodative and stimulative monetary policy encourages investment. Its aggregate demand effects can be offset by a tight enough fiscal policy to make room for the investment so stimulated. This will bring about an output mix heavier on investment and capital formation, lighter on consumption. The assumption is, of course, that the fiscal restrictions apply principally to consumption, either by government itself or by its transferees and taxpayers. The larger purpose is to raise, at least for a long intermediate period, the growth of the economy's potential output, thus to substitute future consumption for present consumption.

The range of choice is enlarged by the variety of fiscal instruments available. Tax reductions, subsidies, and the incentives they carry for businesses and households can within limits be directed either to investment or to consumption. In the early 1960s when a growth-oriented mix of demand stimulus was desired, balance-of-payments fears set a lower limit to interest rates. The investment tax credit, introduced in 1962, was a partial substitute for monetary stimulus and applied to home investment only.

More recently Martin Feldstein advocated a policy mix focused on the type of investment favored by fiscal and monetary policies. Like the sponsors of the investment tax credit in 1962, he was particularly concerned to raise the share of business plant and equipment investment in GNP. To this end he advocated further tax concessions, partly to remove or offset unintended



over-taxation of business profits because of inflation. He observed also that inflation had magnified the advantages the tax code provides for residential investment, especially for owner-occupied homes. These distortions, in his view, justified a mix of tight money and tax cuts for business investors. High interest rates would hold back housing investment and consumption stimulated by capital gains on existing homes. Business investment would be spared the deterrent effects of the high interest rates and indeed would be positively stimulated by generous tax concessions. The country would gain on the inflation front from the appreciation of the dollar, as described above. The policies adopted in 1981 conformed in part to Feldstein's prescriptions.

Exclusive emphasis on business investment in plant and equipment is misguided. The underlying rationale of a pro-investment strategy is concern that society is not meeting its obligations to future generations. There are numerous ways of meeting those obligations. Foreign investment, achieved by current account surpluses, is one, to which the present American policy mix is particularly devastating. Public civilian investment, mostly carried out in the United States by state and local governments, is another. It too is sensitive to interest rates, as well as to the federal grants cut in recent years to make budgetary room for the Reagan Administration's tax cuts and defense build-up. Formation of human capital, dependent on public education, training, and on-the-job experience, is likewise crowded out by high real interest rates. These were costly by-products of a policy twist intended simply to substitute business

investment for residential construction.

The international fiscal/monetary mix.

United States fiscal policy in the 1980s has been a sharp reversal of the policies of the past. Both actual and structural deficits are much larger, relative to GNP, than ever before. Federal debt in ratio to GNP had declined from 120% to 25% after World War II. Now the ratio is rising. It is projected to reach 50% at the end of the decade, and unless the budget program is drastically tightened the ratio will rise indefinitely at ever faster speed. The high-interest-rate policy mix is both an indirect consequence of the fiscal policy reversal of 1981 and an important contributor to the explosive dynamics of deficit and debt over the foreseeable future. High interest costs on the outstanding debt, piled up by both cyclical and structural deficits, are themselves an ever-growing source of deficits.

United States fiscal policy is not only a reversal of its past. It is also the opposite of the policies of most other economically advanced democratic countries. Their governments are, like the Reagan Administration, ideologically conservative, but they give precedence to traditional fiscal discipline over radical supply-side strategy popular among American conservatives. While their economies declined in the world recessions after the second oil shock, those other governments sought valiantly to cut their deficits. While Reagan and Volcker were converting cyclical deficits into structural deficits, their counterparts in Germany, Britain, and Japan-- even in France after the failed go-it-alone expansionism of Mitterand's first

year-- were converting cyclical deficits into structural surpluses. Their tax increases and spending cuts hit their economies while they were down, and their central banks lacked the will or the means or both to offset the contractionary fiscal shocks with monetary ease. It is not surprising that their economies have lagged far behind, recovering only as American demands spill into markets for their exports.

The spillover of American demands into foreign markets results from the U.S. recovery itself and from the appreciation of the dollar due to the U.S. policy mix. Foreign governments and central banks could have captured even more American demand for their economies by easier monetary policies, allowing their currencies to depreciate further vis-a-vis the dollar and possibly lowering their own local interest rates at the same time. In the main, they chose not to, principally for two reasons. Central banks felt constrained, more than our Federal Reserve, by their own monetarist targets. Always jittery about inflation, they especially feared the inflation effects of rises in local prices invoiced in dollars, including oil.

Taking the seven economic summit countries together, fiscal policy since 1980 has been neutral, a stand-off between demand stimulus in North America and anti-stimulus in Europe and Japan. Monetary policy has been relatively tight everywhere. The stagnant tone of the world economy as a whole is therefore no surprise.

High U.S. interest rates have been transmitted to the whole world. The consequences have been especially severe for third world countries. Their exports have benefited from America's

recovery, which is now faltering. Their ultimate salvation hinges on strong and sustained recovery throughout the developed world, and on a general easing of interest rates.

Foreign complaints about American policies should not be addressed solely to the U.S. budget but to our mix of monetary and fiscal policies. No nation's interest lay or lies in aborting American recovery. Critics abroad as well as at home should not be asking for a net withdrawal of demand stimulus but for a different mixture of medicines, less fiscal tonic and more monetary elixir.

Long-run consequences of ever-rising public deficits and debt.

I suggested above that the present parameters of the United States federal budget imply that the federal debt will grow faster than the economy indefinitely. This will be true even if the economy is operating steadily at as low a rate of unemployment as is compatible with non-accelerating prices.

The arithmetic reasons are twofold. First, prospective primary structural deficits are large, 2.5-3% of GNP. By "primary" I refer to the deficit on transactions other than those related to debt service, namely debt interest outlays net of taxes levied on such interest and of the central bank's repayments to the Treasury of earnings on its holdings of debt. Second, the government's net real interest rate is likely to be no lower than the economy's sustainable growth rate. This means that even if the primary deficit were zero the debt would rise faster than GNP. These two circumstances are both new to the United States; they never applied in peacetime prior to 1981.

What is the danger in runaway public debt? The same features of the economy that enable expansionary fiscal policies to provide useful demand stimulus in short runs with excess unemployment mean that public debt crowds out capital stocks in long runs with full employment. Government bonds are net wealth. Savers' horizons are not infinite. Savers' willingness to accumulate net private wealth is limited, not perfectly elastic at some subjective rate of time preference. The more the central government borrows, the less is available for capital accumulation by businesses, households, and local governments and for the acquisition of net claims against the rest of the world. Less is available, that is, for those allocations of wealth which are the sources of productivity advances and future imports. The burden of public debt on our children and our children's children is that we collectively bequeath them smaller stocks of the assets on which their living standards will depend.

The story is actually worse than the deficit-debt dynamics sketched above. Interest rates cannot be taken as constant while the debt grows relative to the economy. Increases in interest rates are the mechanism by which government borrowing squeezes out capital investment. As the capital stock declines relative to output, its rising marginal productivity pulls interest rates up. The vicious circle is that the higher rates in turn accelerate the growth of debt.

To the extent that foreign savings can be tapped, the crowding out of domestic capital stock is mitigated. But national wealth in the form of net claims on the rest of the world is crowded out instead. Unless foreign savings are available at

interest rates low enough to place the net cost of government debt service below the economy's growth rate-- and well below it when the primary structural deficit is large-- the same unstable dynamic scenario still applies.

There is not much the central bank can do about this problem except to allow accelerating inflation. Inflation does relieve the debt problem by enhancing seignorage, a costless source of deficit financing. But if monetary policy is dedicated to holding the inflation rate constant, seignorage will actually decline as crowding out increases interest rates and reduces private demands for base money.

Simulations of this process with plausibly realistic parameters do not show dramatic reductions in real growth of output and consumption very soon. But they do show eventually the complete crowding out of gross investment, as early as 12-15 years if savers' supply of wealth is wholly unresponsive to interest rate increases. At that point the rate of reduction in the capital-output ratio is limited to the physical depreciation of capital. But since the growth of public debt continues unabated, the value of existing capital must fall enough to stay within the confines of the savings available to hold it while ever larger shares are absorbed in holding public debt. These developments are the specific apocalyptic events that Cassandras vaguely hint when they warn that explosive public debt is not a viable future.

Those events will not occur, because fear of them will sooner or later inspire the changes of policy necessary to

forestall them. Better sooner than later. The long run scenario greatly reinforces the case for a radical shift in the policy mix, already amply justified by concerns for the health of the national and international economies in the immediate future.