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Does the US Need Another Fiscal Stimulus

By Martin Feldstein

It would be wrong to plan a second stimulus package at this time. Increasing the national debt would not only impose a greater burden on future taxpayers but would also run the risk of raising the long-term rate of interest. Such a higher interest rate would depress business investment and housing activity, offsetting the expansionary effect of the proposed stimulus.

The rise in the rate of interest would reflect both the increased domestic competition for funds and the possibility that foreign investors would accelerate their switch from dollar bonds to other currencies.

The Chinese have made it clear that they are nervous that our large fiscal deficits could lead to a U.S. inflation that reduces the value of their vast dollar holdings. They fear that the projected doubling of the U.S. national debt as a share of GDP over the next 10 years would tempt the U.S. government and the Federal Reserve to inflate away some of that debt, especially since more than half of that debt is now held by foreign investors. Adding another large amount to that debt would just increase their fears that we have lost control of our national debt or simply don't care.

We may nevertheless need to use some additional federal borrowing in the next year to fix the banking system and to stop the downward spiral of house prices. That spending would be less popular than another stimulus that gives away money to transfer recipients, low-income taxpayers and state governments. But the federal government should preserve its scarce borrowing power for that more important task. .

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