

**U.S. Fiscal Policy in the 1980's:
Consequences of Large Budget Deficits at Full Employment
Benjamin M. Friedman
Discussion Questions**

1. "In 1983, the average U.S. worker earned \$281 per week. By year-end 1989, the average weekly paycheck, stated in 1983 dollars, was just \$271. To continue on with the current policy of high deficits at full employment probably means more of the same." (156)

What, according to Friedman, is the connection between the high budget deficits of the 1980's and the decline in weekly paychecks that occurred during this same period?

What evidence does Friedman offer to show that the government fiscal deficit was unusually high during the 1980s?

What, according to Friedman, is the role of interest rates and investment in accounting for the slow growth of paychecks?

What evidence does Friedman present that interest rates were unusually high during the 1980s? Why does Friedman think that interest rates were high?

2. Would Friedman agree that the U.S. deficit on current account is the twin of the U.S. fiscal budget deficit during the 1980s? Why?

What exactly is the U.S. deficit on current account?

According to Friedman, what mechanism connects the deficit on current account to the fiscal budget deficit?

What evidence does Friedman present to support his view that the two deficits are twins?

3. Why, according to Friedman, is the current account deficit a matter for public policy concern?

What, according to Friedman, are the economic consequences of the fact that the U.S. became a debtor nation in 1985?

4. What, according to Friedman, are the hard choices that we face as a result of the twin deficits? Which choice should we take?