In your Dec. 27 editorial "Flacking for Rubinomics" you misinterpreted the nature, analysis and conclusions of our research paper on "The Economic Effects of Fiscal Discipline."

The main point of our paper is that standard economic reasoning, present in almost all macroeconomic textbooks, implies that budget deficits reduce national saving and therefore reduce the future income and living standards of American households. For example, under conservative assumptions and a methodology developed by Harvard professor Greg Mankiw, we show that the $5 trillion decline in projected 10-year surpluses over the past two years translates roughly into a reduction in future income of $1,500 per household per year. That is the real cost of a lack of fiscal discipline.

These costs occur regardless of whether budget deficits raise interest rates, which reduces Americans' domestic investment, or cause a capital inflow, which reduces Americans' net investment overseas. Therefore, the debate about deficits and interest rates is a bit of a red herring.

Nonetheless, recent evidence supports the view that deficits affect interest rates. This evidence comes from almost all major macro-econometric models, almost all studies done since 1990, and in particular from studies that properly focus on the relation between interest rates and expected future deficits (rather than current deficits). These facts were somehow omitted in your editorial.

Contrary to the what you wrote, we emphasize the distinction between the deficit itself and the policies that create the deficit. Thus, for example, the 2001 tax cut had positive effects on economic growth from cutting marginal tax rates, but negative effects due to the increase in the deficit. On balance, all of the
existing studies show that the negative effects largely offset and may even outweigh the positive effects. As a result, the net effect of the tax cut on growth is likely to be small and could be negative.

The Journal makes the illogical claim that our acknowledgement that other things affect interest rates somehow undermines the finding that deficits also affect interest rates.

You try to paint the paper and the issue as partisan politics. One wonders how you would respond to such Republican voices as the Council of Economic Advisers under President Reagan and the first President Bush; Harvard professor Martin Feldstein, Stanford professor and current Treasury official John Taylor; Federal Reserve Chairman Alan Greenspan; and Harvard professor Greg Mankiw, all of whom are quoted in our paper as subscribing to the view that deficits reduce future national income and raise interest rates.

Your "head in the sand" approach continues a recent pattern of editorials on the deficit that ignore economic research. For example, on Dec. 11 you wrote, "The notion that deficits cause interest rates to rise is a fiction first argued by Robert Rubin, President Clinton's Treasury Secretary. There wasn't any empirical evidence to support this argument when Mr. Rubin trotted it out and there still isn't." Our paper shows -- as every reasoned, serious observer already knows -- that the quoted sentences are nakedly partisan and astonishingly ignorant.

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