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VICE CHAIRMAN JIM SAXTON

PRESS RELEASE

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BUDGET DEFICITS DO NOT SIGNIFICANTLY AFFECT INTEREST RATES

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WASHINGTON, D.C. – The existence of budget deficits does not have a major impact on interest rates, according to a new Joint Economic Committee study released today by Vice Chairman Jim Saxton.

The evidence and analysis presented in the study explain why interest rates could have fallen to historically low levels in recent years even as large budget deficits emerged in the wake of the 2000 bursting of the stock market bubble, the economic slowdown, and significant increases in federal spending on national security. The evidence in the new study, *Federal Borrowing and Interest Rates,* indicates that the strength of the economy, and inflationary expectations, are much more important influences on the level of interest rates than are budget deficits.

"In recent years the federal budget has swung from surpluses to deficits, but interest rates nonetheless have declined to historically low levels," Saxton said. "This experience alone should give pause to those who are quick to claim that budget deficits are a primary factor determining interest rates. Obviously, there are more important factors that must be considered.

"As I have pointed out before, the decline in the stock market and in overall economic growth is by far the largest reason that budget deficits have emerged in recent years. As the economy continues to grow at a healthy pace, spending control can be applied to more quickly reduce the projected budget deficits.

"The study I am releasing today demonstrates that the impact of deficits on interest rates is very modest. The emergence of strong economic growth may be expected to increase private sector loan demand and gradually raise market interest rates. Such a rise in interest rates will reflect improved economic conditions, not the fiscal position of the federal government," Saxton concluded.

For more information on current economic conditions, please visit our website at www.house.gov/jec.

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