

The War and the Economy: Fiscal and Monetary Policy

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Fiscal Policy: Deficits

	Gulf War		Iraq War	
(percent)	1990	1991	2002	2003*
Deficit / GDP	3.9	4.5	1.5	2.4-2.8
“Standardized” Deficit / GDP	2.1	2.4	1.5	n.a.

Fiscal Policy: Summary

- Before and after Gulf War
 - ◆ 1990 – raised taxes, cut spending
 - ◆ 1993 – raised taxes, cut spending
- Before (and after?) Iraq War
 - ◆ 2001 – cut taxes, increase spending
 - ◆ 2003* – cut taxes, increase spending
- Discretionary fiscal policy is more stimulative at the onset of current Iraq War than it was before and after the Gulf War.

Monetary Policy:

Interest Rates and Inflation

Rates (% pts.)	Gulf War				Iraq War			
	1989	1990	1991	1992	2000	2001	2002	2003*
Fed Funds	9.2	8.1	5.7	3.5	6.2	3.9	1.7	1.25*
10yr Treas.	8.5	8.6	7.9	7.0	6.0	5.0	4.6	3.97*
Inflation	4.4	4.6	3.8	3.0	2.5	2.0	1.4	1.2*

Monetary Policy: Summary

- Monetary policy is more stimulative at the onset of current Iraq War than it was at the beginning of the Gulf War.
 - ◆ General price inflation has been less of a recent concern than it was in the period proceeding the earlier Gulf War.
 - ◆ Gulf War started soon after the beginning of the 1990-91 recession. The current Iraq War is about two years after the beginning of the 2001 recession.