

## Debt, diversion, distraction

By Paul Krugman

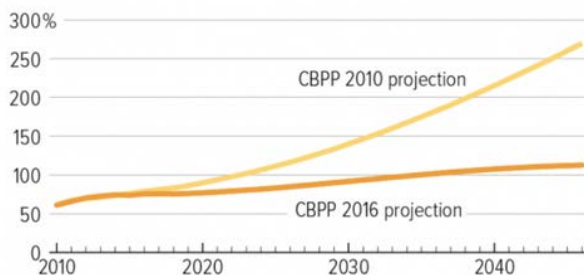
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There was a time, not long ago, when deficit scolds were actively dangerous — when their huffing and puffing came quite close to stampeding Washington into really bad policies like raising the Medicare age (which wouldn't even have saved money) and short-term fiscal austerity. At this point their influence doesn't reach nearly that far. But they continue to play a malign role in our national discourse — because they divert and distract attention from much more deserving problems, depriving crucial issues of political oxygen.

You saw that in the debates: four, count them, four questions about debt from the CRFB, not one about climate change. And you see it again in today's Times, with Pete Peterson (of course) and Paul Volcker (sigh) lecturing us about the usual stuff.

### Projected Debt Ratio in 2046 Has Fallen by More Than Half

Debt as share of gross domestic product



What's so bad about this kind of deficit scolding? It's deeply misleading on two levels: the problem it purports to lay out is far less clearly a major issue than the scolds claim, and the insistence that we need immediate action is just incoherent.

So, about that supposed debt crisis: right now we have a more or less stable ratio of debt to GDP, and no hint of a financing problem. So

claims that we are facing something terrible rest on the presumption that the budget situation will worsen dramatically over time. How sure are we about that? Less than you may imagine.

Yes, the population is getting older, which means more spending on Medicare and Social Security. But it's already 2016, which means that quite a few baby boomers are already drawing on those programs; by 2020 we'll be about halfway through the demographic transition, and current estimates don't suggest a big budget problem.

Why, then, do you see projections of a large debt increase? The answer lies not in a known factor — an aging population — but in assumed growth in health care costs and rising interest rates. And the truth is that we don't know that these are going to happen. In fact, health costs have grown much more slowly since 2010 than previously projected, and interest rates have been much lower. As the chart above shows, taking these favorable surprises into account has already drastically reduced long-run debt projections. These days the long-run outlook looks vastly less scary than people used to imagine.

Still, it's probably true that something will eventually have to be done to bring spending and revenues in line. But that brings me to the second point: why is this a crucial issue right now?

Are debt scolds demanding that we slash spending and raise taxes right away? Actually, no: the economy is still weak, interest rates still low (meaning that the Fed can't offset fiscal tightening with easy money), and as a matter of macroeconomic prudence we should probably be running bigger, not smaller deficits in the

medium term. So proposals to “deal with” the supposed debt problem always involve long-term cuts in benefits and (reluctantly) increases in taxes. That is, they don’t involve actual policy moves now, or for the next 5-10 years.

So why is it so important to take up the issue right now, with so much else on our plate?

Put it this way: yes, it’s possible that we may at some point in the future have to cut benefits. But deficit scolds talk as if they offer a way to avoid this fate, when in fact their solution to the prospect of future benefit cuts is ... to cut future benefits.

If you try really hard, you can argue that locking in policies now for this future adjustment will make the transition smoother. But that is really a second-order issue, hardly

deserving to take up a lot of our time. By putting the debt question aside, we are NOT in any material way making the future worse.

And that is a total contrast with climate change, where our failure to act means pouring vast quantities of greenhouse gases into the atmosphere, materially increasing the odds of catastrophe with every year we wait.

So my message to the deficit scolds is this: yes, we may face some hard choices a couple of decades from now. But we might not, and in any case there aren’t any choices that must be made now. Meanwhile, there are genuinely scary things happening as we speak, which we should be taking on but aren’t. And your fear-mongering is distracting us from these real problems. Therefore, I would respectfully request that you people just go away.