

Paul Krugman - New York Times Blog

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On the Non-equivalence of Greenhouse Gases and Entitlement Spending

One fairly common trope in budget discussions – I’m pretty sure I’ve done it myself, somewhere along the line – is to compare attitudes toward fiscal issues and those toward environmental issues. The usual version, which I must have used, is to compare attitudes toward the long run: pointing out how strange it is that many people profess to be deeply concerned about the state of the Social Security trust fund in the year 2037, while being apparently indifferent to the state of the climate around the same time, which is all too likely to involve things like a permanent drought in the southwest and so on.

But can you make the analogy work in reverse, and say that liberals concerned about the future of the environment should be equally concerned about the long-run budget outlook? Tom Friedman recently made that argument, so it’s worth pointing out, respectfully, why I disagree. And I think that explaining what’s wrong here helps make the broader point that we are spending far too much time worrying about long-term budget projections.

So, let’s start with climate change. Serious people are and should be deeply worried, indeed horrified, by the lack of action on greenhouse gases. But why? Why not just assume that when climate change becomes undeniable, we’ll do whatever is necessary?

The answer, first and foremost, is that each year we fail to act has more or less irreversible physical consequences. We’re pumping around 35 billion tons of carbon dioxide into the atmosphere annually; this stuff will stick around for a very long time, and its consequences for warming and sea level rise will last even longer. So each year that we fail to act has a direct physical impact on the future.

There’s also an investment aspect: each year that we fail to get the incentives right, people commit limited resources to the wrong technologies, especially coal-fired power plants instead of wind, solar, conservation, whatever. Again, these choices have a physical impact on the world of the future.

Now ask, what in the debate about “entitlements” corresponds at all to this kind of impact? Nothing physical, clearly. You could argue that it would have helped to prepay some of our future costs by paying down debt and indeed having the government acquire assets while the demography was favorable – not because this would have directly increased future resources (debt is money we owe to ourselves) but because it would have reduced the need for higher taxes, and hence the distortionary effect of those taxes. And this argument was, indeed, the reason people like me wanted to protect the Social Security lockbox way back when.

But we didn’t; Bush squandered the surplus on tax cuts and unfunded wars (and was, with notably rare exceptions, cheered on by the very people now lecturing us solemnly on the need to cut entitlements). Now the baby boomers are retiring fast, and as far as I can tell none of the deficit

scolds are pushing for a big effort to pay debt down over the course of the next few years.

Instead, they're pushing for things like a gradual rise in the retirement age and a change in the formulas used to compute benefits – things that will cut future rather than present outlays. Or to put it differently, they aren't really trying to cut debt; they're simply trying to lock us in now to the spending cuts they think we'll eventually have to make anyway. And they never, as far as I can tell, really ask why it's important to do this now.

But think about it; use Social Security as the example, although much the same argument applies to other programs. It seems probable if not certain that we will eventually either have to cut SS benefits (relative to current law) or raise additional revenue. So the threat, if you like, is that future benefits will fall short of what people now expect. To avert this threat, the usual suspects insist that we must gradually reduce the program's generosity. That is, in order to guard against cuts in future benefits we must ... cut future benefits. Huh?

OK, there are some arguments you could make; maybe the adjustment would be smoother, with less of a "cliff" when the trust fund runs out, if we set benefits on a downward glide path. But that's a second-order issue, literally: we aren't talking about preserving the overall level of benefits, we're just talking about reducing its variance around a smooth trend. And given how uncertain we are about what the world will look like in 25 years, preemptively cutting right now could mean a gratuitous sacrifice of future benefits that may eventually turn out to have been affordable after all.

The point is that there's a pretty good case for letting the future of entitlements take care of itself. It's not a slam-dunk case, but the case for urgency right now is quite weak, and nothing at all like the case that we need to stop pouring all that CO₂ into the atmosphere as soon as possible.

Now, you might ask whether it's really possible that the whole Serious consensus about the budget is based on such weak logical underpinnings. Don't the great and the good think things through before getting all committed to their views?

Hey, who said I don't have a sense of humor?