Twitter Thread by Paul Krugman



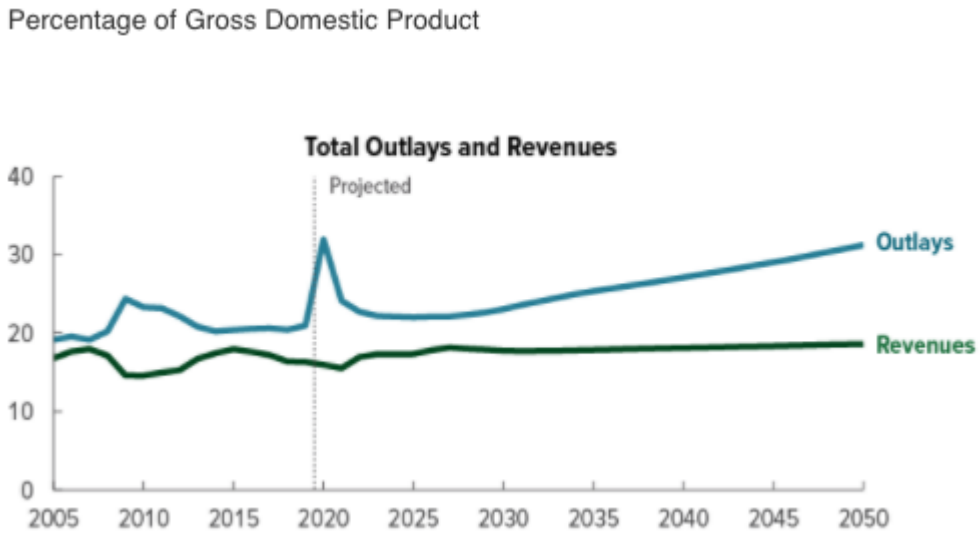
Paul Krugman
@paulkrugman

I write about debt; couldn't resist the Strangelove reference 1/

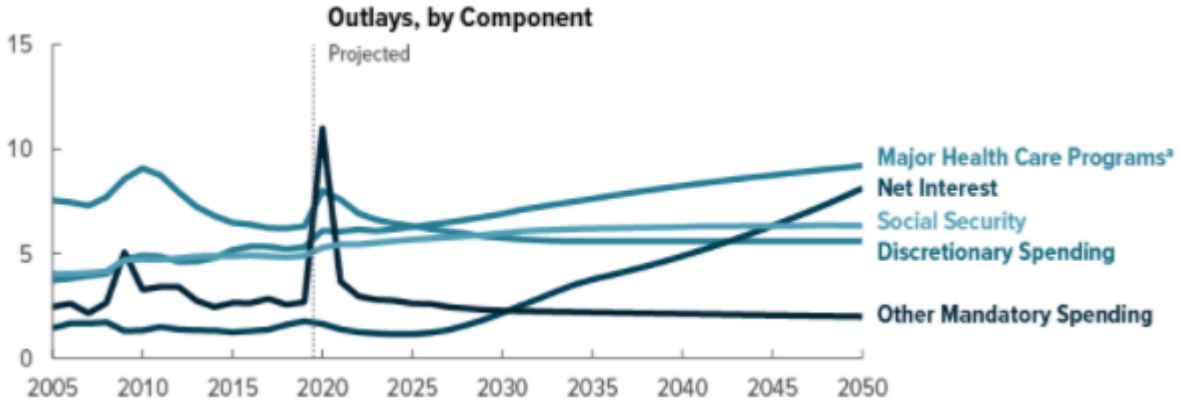
Now, many people will surely start waving around frightening-looking projections, like those of the CBO 2/ https://t.co/J2XjDKa90L

But while I respect CBO's integrity, those long-run debt projections are much more questionable than people probably realize. Realistic projections, I (and many sensible economists) argue, are much less alarming 3/

CBO projects a big rise in spending as % of GDP, and if you don't look under the hood you might well assume that this is driven by fundamentals, especially the aging population 4/



Actually, though, the biggest component is a huge assumed rise in interest costs 5/



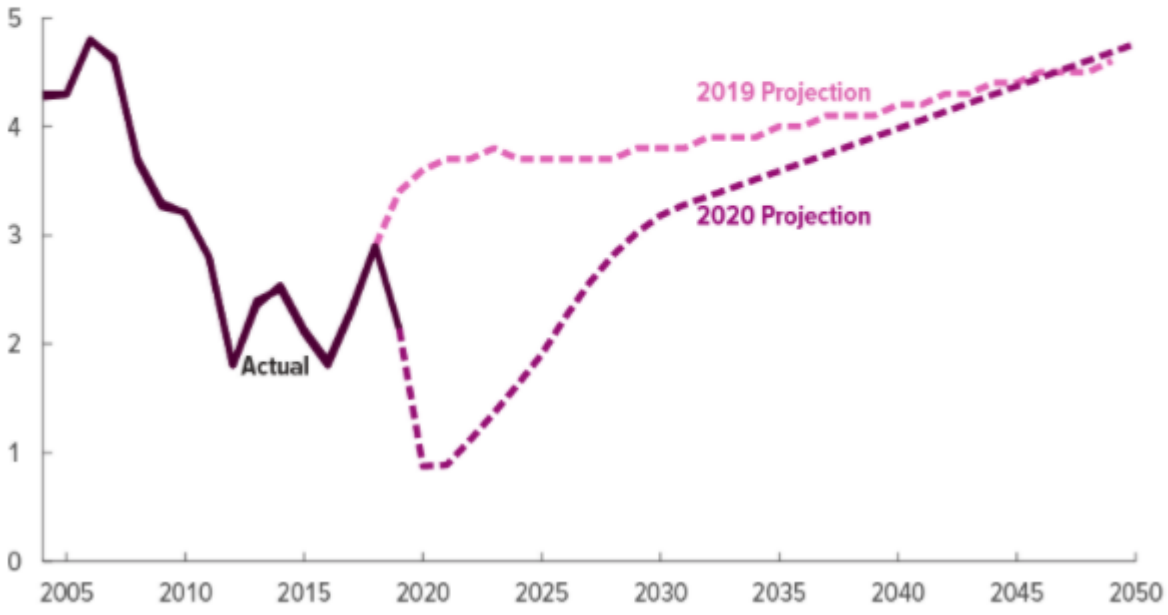
And it's not mainly bc of rising debt: CBO projects debt/GDP doubling, but interest/GDP rising by a factor of 5. Why? 6/

Well, it's all about interest rates, which CBO assumes will rise back to mid-2000s levels. Obviously this could be true — predictions are hard, especially about the future. But not clear why we should believe this 7/

Figure A-3.

CBO's 2019 and 2020 Projections of the Interest Rate on 10-Year Treasury Notes

Percent



Without the assumed rise in rates, projected deficits would be much lower, debt considerably lower, and real interest payments much lower than CBO projects. The long-run budget outlook wouldn't look especially scary 8/

As I see it, at this point alarming long-run projections involve an element of unintentional bait-and-switch. They look as if they're being driven by the unsustainability of entitlement programs, but they're actually reflecting dubious assumptions about interest rates 9/

Oh, and since someone will surely bring it up, none of this has anything to do with MMT; it's pure mainstream analysis, but reflecting the reality of low interest rates 10/