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/
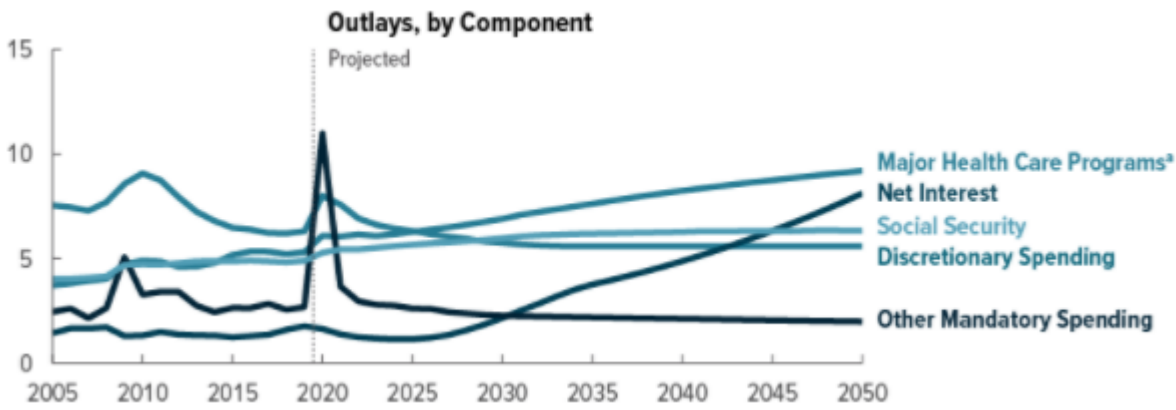https://t.co/J2XjDKa90L

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/

Percentage of Gross Domestic Product

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

Outlays, by Component

Projected

- Major Health Care Programs[a]
- Net Interest
- Social Security
- Discretionary Spending
- Other Mandatory Spending

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

2019 Projection

2020 Projection

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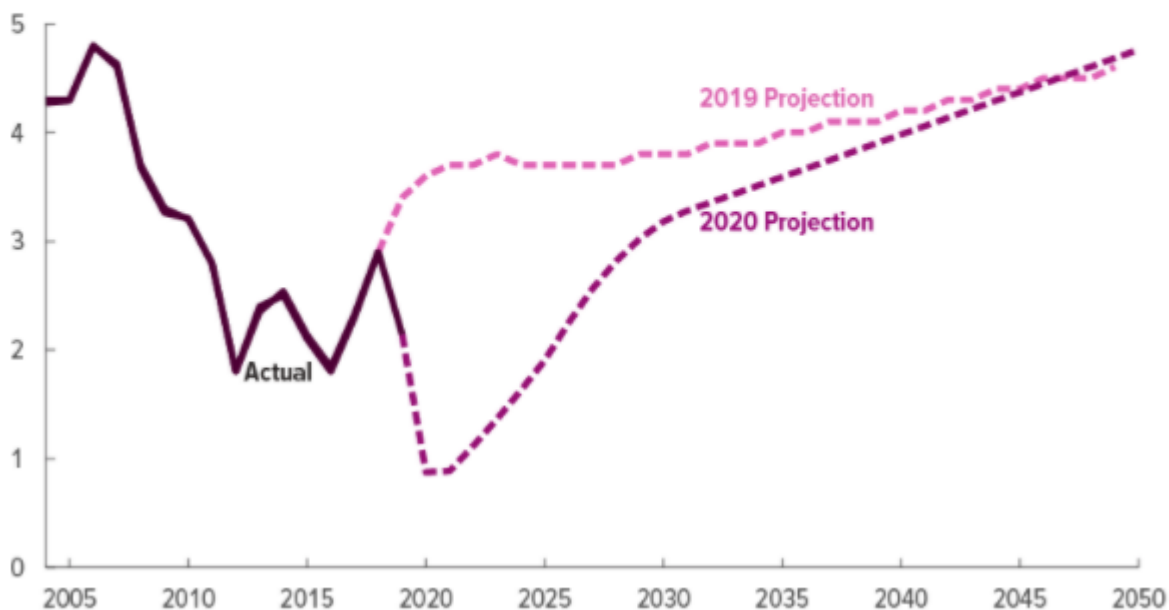
Without the assumed rise in rates, projected deficits would be much lower, debt considerably lower, and real interest payments much lower than CBO projects. The long-run budget outlook wouldn't look especially scary 8/

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/