

Macro Roundup Article

Headline: [Reconciling The Tension Between Green Spending and Debt Sustainability](#)

Article Link: <https://www.piie.com/blogs/realtime-economics/reconciling-tension-between-green-spending-and-debt-sustainability>

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Tweet: [@ojblanchard1](#) argues that reconciling higher spending needed to fight global warming and stabilizing debt levels will require fiscal consolidation yielding "some positive level of the ratio of primary balances to GDP."

Summary: The transition to green energy is likely to decrease growth, at least for some time. What, then, is the margin that can be used [to finance green energy and stabilize debt levels]? It is the speed at which the debt ratio is stabilized. Here is the simple math: Many countries have today a value of $r - g$ close to zero. For the moment, assume that it is equal to zero and ignore uncertainty. Then the stabilization of the debt ratio simply implies that primary balances eventually go to zero. Now reintroduce uncertainty and the need for debt to be sustainable with high probability, thus with probability higher than 50%. The end goal must then be somewhat more ambitious, namely some positive level of the ratio of primary balances to GDP. The important point here is that the end constraint, be it zero or small positive primary balances, cannot be changed. But the speed at which it is reached is the margin the government has in order to achieve it. For the time being, however, governments have to finance themselves at the current rates, and it is reasonable for them to work under the assumption that $r - g$ is and will (in expected value) remain equal to zero. A decrease would definitely help, but they cannot bet on it. Related: [If Markets Are Right About Long Real Rates, Public Debt Ratios Will Increase For Some Time. We Must Make Sure That They Do Not Explode and R versus G and the National Debt and Living with High Public Debt](#)

Primary Topic: Fiscal Deficits

Topics: Database, Fiscal Deficits, Fiscal Policy, Government Spending, Op-Ed/Blog Post, Weekly

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