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Macro Roundup Artcile

Headline: Is a U.S. Debt Crisis Looming? Is it Even Possible?

Article Link: https://www.nytimes.com/2023/08/04/opinion/us-economy-debt-crisis.html?searchResultPosition=2

Author(s)	Paul Krugman
Publication	Krugman Wonks Out
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Tweet: .@paulkrugman argues that at the current interest rate of inflation-protected 10-year U.S. bonds of 1.83%, economic growth makes a runaway debt spiral unlikely.

Summary: You can get a debt spiral if r is significantly larger than g; in that case rising debt leads to faster accumulation of debt, and we’re off to the races. Even after the rate surge of the past few days, the interest rate on inflation-protected 10-year U.S. bonds was 1.83%, which is close to most estimates of the economy’s sustainable growth rate. If you take the low end of such estimates, we could possibly face a debt spiral, but it would be a very slow-motion spiral. Put it this way: If r is 1.8, while g is only 1.6, stabilizing the debt ratio with debt at 100% of G.D.P. would require a primary surplus of 2% of G.D.P.; increase debt to 150%, and that required surplus would increase only to 3%. Related: Summers and Blanchard Debate the Future of Interest Rates and Interest Costs Will Grow the Fastest Over the Next 30 Years and US Fiscal Alarm Bells Are Drowning Out a Deeper Problem

Primary Topic: Fiscal Deficits

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

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