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Macro Roundup Article

Headline: **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**

Article Link: https://www.piie.com/blogs/realtime-economics/if-markets-are-right-about-long-real-rates-public-debt-ratios-will

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Tweet: .@ojblanchard1 writes that the rapid and unexpected move up in rates means that advanced economies will need to move towards primary balance quickly to avoid an explosion of debt-to-GDP ratios.

Summary: Stabilizing the debt ratio implies reducing primary deficits to zero. For both economic and political reasons, there is no way governments can do this quickly. A drastic, immediate consolidation would most likely be catastrophic, both economically in triggering a recession, and politically, by increasing the share of votes going to populist parties. In the United States, where the primary deficit is around 4 percent and (r - g) looks positive at this point, the challenge is even stronger. And, given the current budget process dysfunction, one must worry that the adjustment will not take place any time soon. Thus, the debt ratio is likely to increase for quite some time. We have to hope that it will not eventually explode.

Related Articles: R versus G and the National Debt and Living with High Public Debt and Is the Fiscal Picture Getting Better or Worse? Yes.

Primary Topic: Fiscal Deficits

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

Permalink: https://www.edwardconard.com/macro-roundup/ojblanchard1-writes-that-the-rapid-and-unexpected-move-up-in-rates-means-that-advanced-economies-will-need-to-move-towards-primary-balance-quickly-to-avoid-an-explosion-of-debt-to-gdp-ratios?view=detail

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