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Macro Roundup Article

Headline: Why We Should, but Won’t, Reduce the Budget Deficit

Article Link: https://www.nytimes.com/2023/10/10/opinion/us-budget-deficit-interest-rates.html

Author(s)	Paul Krugman
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Tweet: .@paulkrugman argues “high interest rates will almost surely crowd out private investment, hurting our long-term prospects," but doesn’t see paths for either federal spending reductions or “a tax increase that would make a large dent in the deficit.”

Summary: Even if there’s no immediate crisis, high-interest rates will almost surely crowd out private investment, hurting our long-term prospects. I’m especially concerned about the effects of high rates on investments in renewable energy, which are of existential importance. The federal government is essentially an insurance company with an army. Look at spending in fiscal 2023: Social Security, health care and other safety net programs accounted for most government spending. Add military spending and interest payments, and what’s left — NDD, for “nondefense discretionary” spending — is a small slice of the total. Furthermore, NDD has been squeezed by past austerity. So there’s no possibility for major spending cuts unless we slash programs that are extremely popular. The point is that the economics of deficit reduction are straightforward. It can be accomplished either by reducing social benefits or by raising taxes. Given that America has weak social spending compared with other countries, taxes are the most plausible route. But I don’t see any plausible political path to a tax increase that would make a large dent in the deficit.

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Primary Topic: Fiscal Deficits

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

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