The Daily Dish

Why You Shouldn’t Listen to Paul Krugman

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Eakinomics tried very hard to ignore Paul Krugman’s opinion piece: “Why You Shouldn’t Obsess About the National Debt.” But a sufficient mass of loyal readers badgered me for a reaction, so here we go. Krugman makes three points. In his words:

> First, while $34 trillion is a very large figure, it’s a lot less scary than many imagine if you put it in historical and international context. Second, to the extent debt is a concern, making debt sustainable wouldn’t be at all hard in terms of the straight economics; it’s almost entirely a political problem. Finally, people who claim to be deeply concerned about debt are, all too often, hypocrites — the level of their hypocrisy often reaches the surreal.

On the third point, we can merely consider the source and move on. On the first point, he argues: “It’s roughly the same as it was at the end of World War II. It’s considerably lower than the corresponding number for Japan right now and far below Britain’s debt ratio at the end of World War II. In none of these cases was there anything resembling a debt crisis.”

None of this should be comforting. First, to have debt essentially equal to gross domestic product (GDP) outside of wartime is unprecedented for the United States – and it is projected to get much, much worse. That is troubling. And to suggest that we should model ourselves after Japan, an economic supernova that burned out 30 years ago, or Britain – the New York Yankees turned Bad News Bears of the global economy – indicates just how detached from reality he is. These are not success stories.

But worse, notice the grading standard: “In none of these cases was there anything resembling a debt crisis.” This is the standard argument for the defenders of the let’s-try-to-impoverish-all-future-Americans status quo: Anything that is not a crisis is just fine. A century of sustained economic stagnation. Fine. Zero risk capital, entrepreneurial ventures, and innovation. Fine. Permanently escalated real interest rates. Fine. Loss of the dollar as a reserve currency. Fine.

A sovereign debt crisis is a failure. An F. Just not having a crisis is a D. America should want to do better than a D. It should have a fiscal policy that delivers sustained rapid growth in the standard of living, the ability to compete globally, and the resources for economic and national security. Nobody should be content with a fiscal policy that is allowed to simply burden the economy and U.S. workers. The Krugman standard is the moral equivalent of dressing a Parisian runway model in something from the seconds bin at Dress Barn. Aim higher, Paul.

As he continues to run the progressive see-no-evil, hear-no-evil playbook, Krugman argues: “Well, almost every debt crisis I’ve been able to find in the historical record involved a country that borrowed in someone else’s currency, which left it vulnerable to a liquidity crunch when lenders for some reason ran for the exits and it couldn’t print cash to pay them off until the panic subsided.” The key here is “couldn’t print cash.” Krugman is simply arguing that the United States should inflate its way out of the problem and reduce the real value of the debt.

No, thanks. I don't know where he has been living since 2021, but people hate inflation. And if people hate inflation in the 5 to 10 percent range, they are going to HATE the required inflation at several multiples of that. This is simply trading one crisis for another.

In case you haven't guessed, Eakinomics does find the level and trajectory of the debt scary.

Krugman's second point is that "making debt sustainable wouldn't be at all hard in terms of the straight economics; it's almost entirely a political problem." Eakinomics will note for the record that in a representative democracy there is no difference between the economics and the politics. Every policy issue is a political issue in the end. For this reason Krugman's blithe assertion that needing to cut spending or raise taxes by 2.1 percent of GDP is not a big number is mind-boggling. It is $593 billion a year, nearly $6 trillion over the 10-year budget window.

Notice as well that Krugman assumes this should be done exclusively as tax increases. Evidently it is unthinkable to take $6 trillion out of federal spending on behalf of taxpayers, but no big deal to actually take $6 trillion from those same taxpayers. Hmmm…? Unfortunately, as a matter of arithmetic, he is wrong again. The large entitlement spending programs – Social Security and Medicare – are growing faster than revenues will ever grow. Raising taxes, even raising taxes in a draconian fashion, merely closes the gap temporarily. The divergent growth rates means that the same problem recurs in the future.

Krugman's figurative shoulder shrug – which argues that there's no problem, and if there were, it would be easy to fix, and he would know how to fix it – just doesn't hold water. The truth is that the United States has a big problem, and the political economy of addressing it will be difficult. But it is worth doing.