

Thoughts on debt policy (Olivier Blanchard, PIIE-Brookings, November 2020)

Tough, because I am in nearly total agreement with Jason and Larry. 6 points

1. Secular stagnation, with no constraints on r , so $r=r^*$, implies a much lower opportunity cost of debt, both fiscal and welfare wise.
2. Secular stagnation plus the effective lower bound on r , so $r>r^*$, implies the need for more spending. Main tool being fiscal deficit. So lower costs, larger benefits of deficits/debt.
3. So governments must be ready to run deficits post covid if needed (not a certainty). And allow for a further increase in debt.

Two minor points

1. Debt sustainability. I do not like PDV computations, especially when $r<g$. In practice, the big issue is r , both level and uncertainty. So, ask: Can we generate a primary surplus to finance debt service with very high probability in the next n years?
2. Green investment. Indeed. Partly the solution. Useful directly, and indirectly through aggregate demand even if not financed by debt. Gvt does not get a pass to finance it all by debt if no fiscal revenues.

Playing devil's advocate

1. How sure are we about low r in the future? Markets are nearly sure. Economists have a long list of potential culprits, but no indictment. How much is S/I , and how much demand for safety? Could worry: Post covid feeling of let's live life to its fullest. Or more realistically: more health insurance in China and large decrease in saving, partly to come. Breakthroughs in green technology. Etc.