The Perils of Economic Centrism in a Polarized World

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CAMBRIDGE – It's not easy being a centrist economist in today's polarized, social-media-driven world, where every idea is quickly forced into one ideological camp or another. To paraphrase a remark often attributed to Leon Trotsky, centrist economists may not be interested in war, but war is interested in them.

My 2016 book *The Curse of Cash*, which explored the past, present, and future of money, is a case in point. After its publication, I received more than 20 death threats, some clearly from drug dealers and gun owners outraged by my call to phase out $100 bills, and others from crypto evangelists who considered my support for regulation an act of treason.

Oddly enough, I didn't mind the threats as much as one might expect. As unhinged as some of these people were, at least they had understood the book's arguments; they just vehemently disagreed with them.

The same cannot be said of the 2013 uproar over my work with Carmen M. Reinhart. That episode began when three University of Massachusetts Amherst economists argued that our six-page 2010 conference paper "Growth in a Time of Debt" contained multiple "errors" that had supposedly misled policymakers in Europe and the United States into adopting harmful austerity measures in the aftermath of the global financial crisis. The ensuing outrage fostered a false narrative that persists to this day.

In reality, our paper contained only a single error. Critically, that error did not appear in the full-length edited journal version, published in 2012, which was based on a much larger and more complete dataset. As Stanford's Michael J. Boskin observed at the time, it is hardly unusual for preliminary research to undergo corrections during the revision process.

Both versions of the paper reached the same general conclusion: across advanced economies, periods of very high public debt tend to coincide with slower economic growth. Of course, this finding does not mean that running deficits harms short-term growth any more than borrowing to buy something you enjoy makes you unhappy. It simply means that the long-term burden of debt can weigh on future prosperity.

Our analysis divided countries into two groups: those with debt levels over 90% of GDP and those below. But the 90% mark was never a "threshold" where growth suddenly collapses; it was merely a divide to illustrate that high-debt countries as a group underperform, on average. As we explained repeatedly, having debt reach 90% of GDP does not imply growth collapse any more than people who drive slightly over the speed limit or whose cholesterol levels are just above the recommended range see a sudden jump in risk.

There are solid theoretical reasons why high debt can impede growth. Heavy government borrowing can crowd out private investment, while the taxes required to service that debt are often distortionary. And when debt is already high, governments have less fiscal space to respond to crises or invest in infrastructure.

Once the controversy subsided and researchers began examining our data, along with newer datasets, the evidence that emerged largely supported our original conclusions. Notably, we never claimed causality, though as the literature continues to evolve, that question will likely be resolved as well.

The most pernicious misrepresentation was that we somehow *advocated* austerity, when neither the concept nor the word appeared anywhere in our work. In truth, our real offense was suggesting that there might be a tradeoff between debt and growth. While stimulating the economy during a downturn is important, the size of the stimulus needs to be calibrated, especially if it leads to very high debt.

In fact, our 2009 book *This Time Is Different* (written before we later tackled debt and growth) showed that financial crises almost always necessitate a sharp increase in government debt – a finding many economic policymakers used to argue *for* greater stimulus in the wake of the 2008 crisis. We argued that governments facing debt crises have often resorted to heterodox solutions rather than relying solely on conventional monetary and fiscal measures. I also advocated partial debt forgiveness (in exchange for equity) for US subprime borrowers and for highly indebted southern European economies.

In the early stages of the 2008 crisis, I even proposed that central banks temporarily relax their inflation targets as a less painful way to deleverage their economies – an idea that was considered blasphemous at the time but has since gained traction. Do these ideas and proposals amount to promoting austerity, or do they recognize a richer menu of policy options than the crude Keynesianism that has dominated too much of the debate, even to this day?

Perhaps this time is different. Having grown accustomed to misrepresentation as the price of taking centrist positions in the age of cancel culture, I have been pleasantly surprised by the reception of my latest book, *Our Dollar, Your Problem*. Reviewers, interviewers, and commentators from across the ideological spectrum have engaged with it seriously, appreciating its analysis of the strengths and vulnerabilities of our dollar-based global financial system.

Remarkably, this open-mindedness has extended even to some critics from the austerity camp. That makes me think that perhaps there is hope for more reasonable discussions in the future – though I’m not holding my breath.

KENNETH ROGOFF

Kenneth Rogoff, a former chief economist of the International Monetary Fund, is Professor of Economics and Public Policy at Harvard University and the recipient of the 2011 Deutsche Bank Prize in Financial Economics. He is the co-author (with Carmen M. Reinhart) of *This Time is Different: Eight Centuries of Financial Folly* (Princeton University Press, 2011) and the author of *Our Dollar, Your Problem* (Yale University Press, 2025).

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