Matt Yglesias

Today at 1:01 pm

Markets Really Do Convey What Market Participants Think

Paul Krugman on an underdiscussed point:

> And right now, deficit-phobia has quickly congealed into the latest CW. You can see it in editorials (not from the Times, I'm happy to say, but almost everywhere else), in what the talking heads say, even in supposedly objective news reporting. Not a day goes by without my reading some assertion that "markets are anxious/jittery/worried about the deficit" — an assertion based on no evidence whatsoever. (Long-term interest rates on US debt are near historic lows; CDS spreads show no concern about default.)

It's really maddening that at the same time preposterous idea like strong forms of the Efficient Markets Hypothesis continue to be respectable that people seem unwilling to trust financial markets to *accurately convey the beliefs of participants in financial markets*. I would add to Krugman's observations the fact that we have Cato's Chris Edwards blaming anticipating inflation for the lack of private investment when the TIPS spread shows that markets aren't anticipating inflation.

Right now economic conditions are bad. And the budget deficit is high. So I find it understandable if the man on the street chooses to conclude that the budget deficit is causing or contributing to the bad economic situation. But people writing about these matters ought to know better—interest rates are low and markets are assessing both default risk and inflation risk as low. So what about the deficit is supposed to be causing the problem? Meanwhile, to repeat myself the wise elected official is going to spend less time worrying about what voters think is to blame for the economic situation than he does on *fixing the bad economic situation*. Results matter more than folk theories.

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