

## Macro Roundup Article

**Headline:** [Hitch Your Wagon to R-Star](#)

**Article Link:** <https://www.nytimes.com/2023/08/25/opinion/natural-interest-rate-r-star.html>

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**Tweet:** .@PaulKrugman notes that after a long period of general agreement that  $r^*$  was very low, there is now active disagreement about the level of  $r^*$ , with some, including the Richmond Fed, believing that  $r^*$  has increased substantially.

**Summary:** Many of us thought we had a pretty good understanding of the forces behind low  $r^*$  before Covid struck. Investment demand is largely driven by expectations about future economic growth, and prospects for U.S. growth seemed low in part because of demography — growth in the working-age population has stalled — and in part because, despite all the hype about technology, productivity has grown slowly since the mid-2000s. The demographic story hasn't changed. There are a couple of other forces that might have increased  $r^*$ . Budget deficits have gotten bigger, which could be providing a fiscal boost. The Biden administration's industrial policies seem to be catalyzing a boom in manufacturing investment. But manufacturing investment isn't that big a part of overall investment spending, so it's not clear how much this matters for interest rates. One possible reason to think that  $r^*$  may have risen is the surprising resilience of the economy in the face of Fed rate hikes.

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**Primary Topic:** Business Cycle

**Topics:** Business Cycle, Financial Markets, GDP, Growth, Monetary Policy, Op-Ed/Blog Post, Weekly

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