

Macro Roundup Article

Headline: [Inflation and Debt Across Countries](#)

Article

Link: <https://johnhcochrane.blogspot.com/2023/07/inflation-and-debt-across-countries.html>

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Tweet: [@JohnHCochrane](#) argues that current conditions of trillion-dollar deficits with 3.6% unemployment are not consistent with a persistent decline in inflation.

Summary: There was a big expansion in M2 before the US inflation. Monetarists took a victory lap. M2 has since fallen a lot. There is not much correlation between monetary expansion and inflation across countries, however. The slope of the regression also clearly depends on one or two points. Money or debt, which is it? When governments print money to finance deficits (or interest-bearing reserves), fiscal theory and monetary theory agree, there is inflation. Printing money (helicopters) is perhaps particularly powerful, as debt carries a reputation and tradition of repayment, which money may not carry. A core issue separating monetary and fiscal theory is whether a big monetary expansion without deficits or other fiscal news would have any effects. Would a \$5 trillion QE (buy bonds, issue money) with no deficit have had the same inflationary impact? Monetarists, yes; fiscalists, no. Related: The Second Great Experiment Update, Waning Inflation, Supply and Demand and Fiscal Arithmetic and the Global Inflation Outlook

Primary Topic: Inflation

Topics: Fiscal Deficits, Fiscal Policy, GDP, Government Spending, Inflation, Weekly

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