

Macro Roundup Article

Headline: [Destructive Decoupling](#)

Article Link: <https://www.project-syndicate.org/commentary/us-china-economic-decoupling-sequences-by-michael-spence-2023-03>

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Tweet: Michael Spence argues that the Sino-American decoupling "are as far-reaching as they are severe." He argues that such decoupling will likely lead to higher inflation, which might compound fiscal pressure in the west.

Summary: Make no mistake: the economic consequences of this lurch toward confrontation are as far-reaching as they are severe. As global supply chains become less elastic, less efficient, and more costly, their ability to counteract inflationary pressures will decline. Central banks will thus be left to manage price growth alone, by suppressing excess demand. The combination of higher interest rates and heavy sovereign-debt burdens will compound fiscal pressures. Though lower inflation could ease those pressures, interest rates are likely to remain elevated for a while, especially if suboptimal global economic trends and secular forces like population aging cause supply-side conditions to deteriorate. Nor is the downward trend in productivity growth – which has become particularly pronounced in the last decade – likely to be reversed in a fragmented global economy with barriers to technology development and diffusion.

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Primary Topic: Business Cycle

Topics: Business Cycle, GDP, Inflation, Op-Ed/Blog Post, Quote, Theory, Trade (not deficits)

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