Macro Roundup Article

Headline: What We've Learned About Inflation

Article Link: https://www.wsj.com/articles/what-weve-learned-about-inflation-prices-federal-reserve-borrowing-debt-fiscal-theory-faf66883?mod=opinion_lead_pos5

Author(s)	John Cochrane
Publication	Wall Street Journal
Publication Date	August 02, 2023

Tweet: .@JohnHCochrane takes a victory lap, arguing that the fiscal theory of the price level is the most descriptive theory of inflation.

Summary: A one-time $5 trillion fiscal blowout causes a one-time rise in the level of prices, just enough to inflate away the value of the debt by $5 trillion. Then inflation stops, even if the Federal Reserve does nothing. The Fed is still important in fiscal theory. The Fed bought about $3 trillion of the new debt and converted it to interest-paying reserves. Giving people checks backed by reserves is arguably a more powerful inducement to spend than giving people Treasury bonds. Now, by raising interest rates, the Fed lowers current inflation but at the cost of more-persistent inflation. That smoothing is beneficial. These are core propositions of fiscal theory, stated ahead of time and at odds with conventional theories.

Related Articles: Waning Inflation, Supply and Demand and The Second Great Experiment Update

Primary Topic: Inflation

Topics: Database, GDP, Inflation, Monetary Policy, Op-Ed/Blog Post, Weekly

Permalink: https://www.edwardconard.com/macro-roundup/johnhcochrane-takes-a-victory-lap-arguing-that-the-fiscal-theory-of-the-price-level-is-the-most-descriptive-theory-of-inflation?view=detail

Featured Image Link: https://www.edwardconard.com/wp-content/uploads/2023/08/Cochrane-Inflation.png