

## Macro Roundup Article

**Headline:** [Olivier Blanchard on Debt Explosions](#)

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**Tweet:** [.@ojblanchard1](#) has a pessimistic outlook for the endgame for the surging American debt ratio: "My sense is it's going to boil slowly," he writes, "I don't know how it ends; not smoothly, is my guess."

**Summary:** The factor which is probably most relevant, which is what finance people call the term premium. You can think of it in two ways. The first one is in terms of [Treasury bond] flow supply and flow demand. At this stage, there is a lot of supply and for various reasons there is less demand. There is QT, which is increasing supply from the Fed. It's conceivable that that's part of it. And the fact that long rates vary so much on news about the US Treasury changing the maturity of its issuance makes me think that it is probably relevant. The second one is to think of the term premium as a risk premium. I don't think that's it, because in that case we would see the nominal rates go up, but not rates on inflation-indexed bonds. But these rates have gone up as well. As hard as it is to imagine, there might be an emerging credit spread on T-bonds or a failed auction. And then Congress and the president would have to sit down and decide to do the right thing. A scary alternative scenario is that Donald Trump is elected, that he puts a lackey at the Fed, who monetises some of the debt, and we get high inflation.

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**Primary Topic:** Banking

**Topics:** Banking, Financial Markets, Fiscal Deficits, Fiscal Policy, GDP, Government Spending, Monetary Policy, News article

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