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Macro Roundup Artcile

Headline: Recycling Money

Article Link: https://fedguy.com/recycling-money/

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Tweet: .@FedGuy12 notes rising deficits as a % of GDP, but argues that “A nominal GDP growth rate that is comfortably higher than the interest rate suggests there will be sufficient income to service debt.”

Summary: Fiscal spending was 23% of GDP in 2023 and forecast by the CBO to slightly trend higher as a share of GDP over the next several years. The CBO also expects the source of funds to shift towards borrowings due to a growing fiscal deficit. Deficit spending may be a particularly impactful form of redistribution as it draws from pools of cash earmarked for financial assets and spends it on goods and services. Also note the investor’s wealth is unchanged as he receives a Treasury in exchange for cash, while taxation would reduce the purchasing power of the taxpayer. A nominal GDP growth rate that is comfortably higher than the interest rate suggests there will be sufficient income to service debt. One measure of the restrictiveness of interest rates is the difference between income growth and interest rates, where a smaller or negative gap indicate higher levels of restraint. The distribution of income is heterogeneous as are the spreads charged by lenders, but the two could roughly be proxied on a macro scale through the growth rate of nominal GDP and the 10 year yield. Credit spreads have historically widened when income growth is lower than interest rates. Nominal GDP has been comfortably above the 10 year yield since 2020 and recent economic indicators suggest continued strength. Related: Interest Costs Will Leapfrog Medicare and Defense This Year and The Budget and Economic Outlook: 2024 to 2034 and When Does Federal Debt Reach Unsustainable Levels?

Primary Topic: Growth

Topics: Fiscal Deficits, Fiscal Policy, GDP, Government Spending, Growth, Inflation, Op-Ed/Blog Post, Taxation

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