

## Macro Roundup Article

Headline: [Fitch Is Right](#)

Article Link: <https://johnhcochrane.blogspot.com/2023/08/fitch-is-right.html>

Author(s)	John Cochrane
Publication	The Grumpy Economist
Publication Date	August 03, 2023

**Tweet:** [@JohnHCochrane](#) argues that Fitch was right to downgrade the US as inflation is effectively a default. "If you only repaid 87.6% of your mortgage, you can be sure the bank would see you as a worse credit risk going forward."

**Summary:** Inflation is the economic equivalent of a partial default. The debt was sold under a 2% inflation target, and people expected that or less inflation. The government borrowed and printed \$5 Trillion with no plan to pay it back, devaluing the outstanding debt as a result. Cumulative inflation so far means debt is repaid in dollars that are worth 12.4% less than if inflation had been 2%. That's economically the same as a 12.4% haircut. If you only repaid 87.6% of your mortgage, you can be sure the bank would see you as a worse credit risk going forward. The probability that the US inflates again, that in the next crisis they do the same thing, is unquestionably larger. The world's appetite for boundless amounts of US debt is unquestionably smaller.

**Related Articles:** [What We've Learned About Inflation](#)

**Primary Topic:** Inflation

**Topics:** Fiscal Deficits, Fiscal Policy, GDP, Inflation, Op-Ed/Blog Post

**Permalink:** <https://www.edwardconard.com/macro-roundup/johnhcochrane-argues-that-fitch-was-right-to-downgrade-the-us-as-inflation-is-effectively-a-default-if-you-only-repaid-87-6-of-your-mortgage-you-can-be-sure-the-bank-would-see-you-as-a-worse-cre?view=detail>

**Featured Image Link:** <https://www.edwardconard.com/wp-content/uploads/2023/08/Screenshot-2023-08-03-at-10.06.01-AM.png>