Fiscal Histories

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The fiscal theory states that inflation adjusts so that the real value of government debt equals the present value of real primary surpluses. Monetary policy remains important. The central bank can set an interest rate target, which determines the path of expected inflation, while news about the present value of surpluses drives unexpected inflation. I use fiscal theory to interpret historical episodes, including the rise and fall of inflation in the 1970s and 1980s, the long quiet zero bound of the 2010s, and the reemergence of inflation in 2021, as well as to analyze the gold standard, currency pegs, the ends of hyperinflations, currency crashes, and the success of inflation targets. Going forward, fiscal theory warns that inflation will have to be tamed by coordinated monetary and fiscal policy. I thank Erik Hurst, Ed Nelson, Nina Pavcnik, and Timothy Taylor for helpful comments.