# Project Syndicate: Fear of Rising Interest Rates No Reason to Shy Away from Fiscal Expansion

73 million people voted for Donald Trump for president.

Few of those who voted for Trump are the plutocrats who benefitted handsomely from the Trump-McConnell-Ryan tax cut. Few of them, even, are plutocrat wannabees who anticipate benefitting from it. Few of them regard the installation of large numbers of reactionary judges on the federal courts as a major concern. The 73 million voted for Trump for many reasons. But one not-negligible reason is that, until the coming of COVID-19, when Trump was president the U.S. economy delivered handsome wage increases—wage increases for typical Americans that neither the Bush nor the Obama economy delivered, wage increases at a pace not seen since the economy back when Clinton was president.

If the U.S. economy fails to deliver similar healthy wage increases over the next four years, those 73 million and more will take note of the differential. And they may vote for a Trump—or for some Trump-like figure like Tom Cotton or Josh Hawley—for president in 2024.

The decade of the 2000s, you see, was a disaster for American incomes. Median real household income in 2011 was some $57,000, well below the year 2000's $62,500. Only in Obama's last year, 2016, did median real household income clear its year-2000 peak. Only in the first three Trump years, as the economy closed in on full employment, did typical American incomes grow strongly enough to surpass the previous high tide: in 2019 median household income was closing in on $69,000, more than 20% above the Obama-era nadir and 10% above the previous Clinton-era peak.

Why? Well, large wage increases for typical workers require a high-pressure economy. And government from 2001 to 2016 did not prioritize attempting to deliver a high-pressure economy.

In 2010—when the Obama administration began its pivot to austerity, and greatly downweighted the task of boosting employment back to normal levels and focused on attempting spending cuts and deficit reduction—the prime-age employment-to-population ratio was 75%, 5%-points below what 2007 had attained as full employment without any wage-pressure inflation, and 7%-points below what 2000 had attained as full employment. In 2013, when Federal Reserve Chair Ben Bernanke announced that the time for extraordinary monetary stimulus was over, and so administered the depressive shock to long-term interest rates called the "taper tantrum", the prime-age employment-to-population ratio was less than 76%. And in 2015, when Federal Reserve Chair Janet Yellen began the most recent interest rate-raising cycle, plausibly knocking a percentage point or two off of mid-2010s economic growth in an economy that had looked as though it might be gaining recovery speed, the prime-age employment-to-population ratio was only 77%. Not until late in 2019—fully ten years after the nadir of the Great Recession businesscycle trough—would the U.S. economy once again reattain anything we could call “full employment”.

But now we hear, once again, that it is time for austerity. We hear, once again, that rock-bottom interest rates slam against the zero lower bound are unnatural. We hear, once again, that the deficit needs to be cut substantially and immediately. Fiscal hawks admit that right now financing the deficit and debt is not an issue. But, they say, it could become a crucial issue at any moment. Interest rates could turn on a dime and rise sharply if investor psychology undergoes one of its sudden psychological shifts. And then where would we be, unless we take steps now to cut the deficit savagely now?

Back in 2012 Larry Summers and I tried to teach the world that this line of thought I erroneous. But the consensus view of what high-quality economists are thought to think—which is different from what high-quality economists do think—has absorbed only one of the two lessons from the Fiscal Policy in a Depressed Economy paper we wrote for the Brookings Institution. The lesson that has been absorbed is that financing the debt is not an issue as long as demand for safe assets remains very high and thus Treasury interest rates remain very low. But the more important lesson has not been absorbed: In a deeply depressed economy, borrow-and-spend increases the country’s short- and long-run prosperity and so increases its fiscal capacity by more than it increases its fiscal debt burden. The ratio of debt to fiscal capacity goes down, not up, with larger deficits. And this holds whether interest rates are high or low.

Levels of productivity certainly and long-term employment plausibly as well as levels of income depend powerfully on the state of the economy. Whatever prosperity-linked economic objective you are interested in, it is much more easily attained the higher pressure the economy is. And if the past generation has anything to teach us, it is that expansionary fiscal and monetary policies remain, as they have always been, very powerful tools for generating a higher-pressure economy.

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