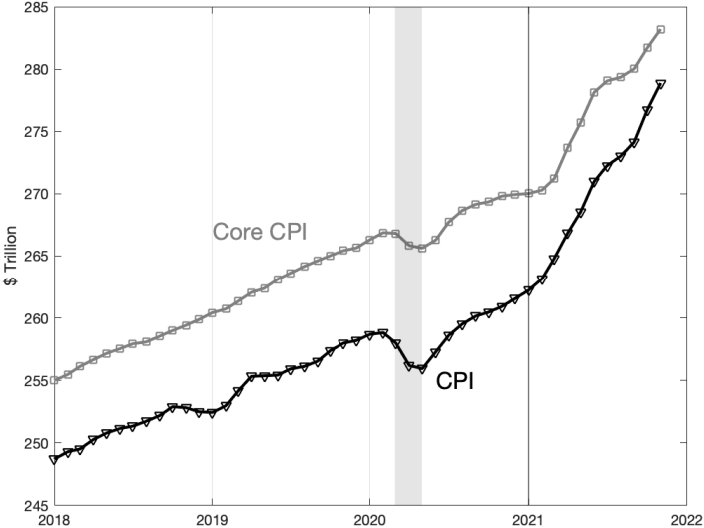


The inflation eruption

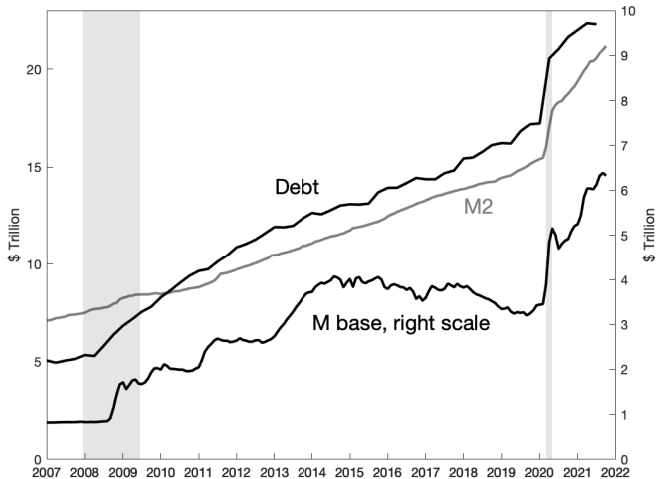
John H. Cochrane

Hoover Institution, Stanford University

Inflation emerges



A fiscal helicopter drop



A fiscal helicopter drop

Quantity	Q4/Dec 2019	Q3/Sep 2021	Difference
A. Federal debt held by public	\$17,187	\$22,304	\$5,117
B. Monetary base	\$3,427	\$6,389	\$2,962
C. Fed holdings of treasurys	\$2,329	\$5,431	\$3,102
A+B-C	\$18,285	\$23,262	\$4,977
M2	\$15,325	\$20,994	\$5,669

- ▶ Print up \$3 trillion, send people checks. Borrow \$2 trillion more, send people checks. 30% debt expansion. What do you expect?
- ▶ A *fiscal* helicopter. Did not send \$5 Trillion M and take back \$5 Trillion B. “Wealth” effect not portfolio composition effect.
- ▶ Why not previous “fiscal stimulus?”

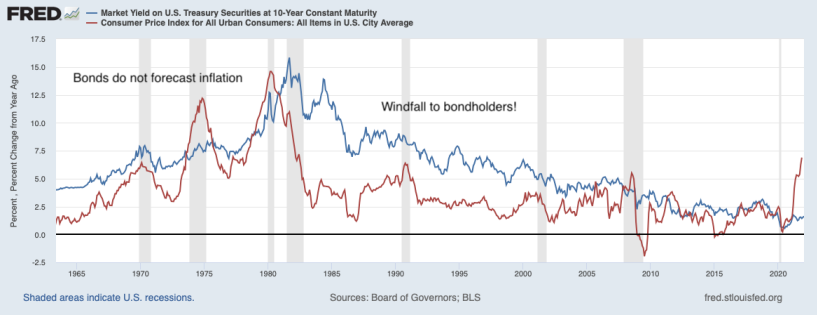
Will inflation continue?

- ▶ One-time helicopter drop = one-time price level increase.
- ▶ Future inflation depends on future fiscal & monetary policy.
- ▶ Fiscal: Inflation if people think new debt will not be repaid. This one, evidently not. Do people believe future deficits will be repaid?
- ▶ Monetary: Can Fed raise rates, will that lower inflation? 100% Debt/GDP. 5% interest rate = 5% GDP = \$1 Trillion more deficit. Per year.
- ▶ Higher interest rates cannot lower inflation unless they come with a fiscal contraction. (Pay interest costs on debt and windfall to bondholders). (Figure next page).

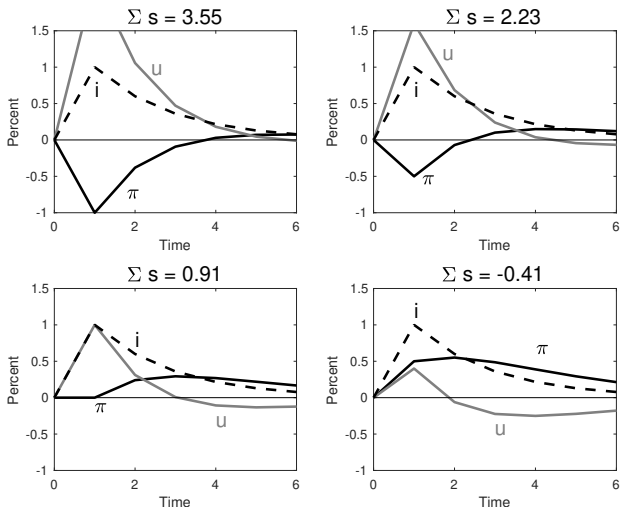
Writing

- ▶ “The Ghost of Christmas Inflation,” Blog & Project Syndicate
- ▶ “Inflation in the Shadow of Debt,” Blog & Project Syndicate
- ▶ “The end of ‘the end of inflation’ ” Blog
- ▶ “Inflation: The Ingredients Are in the Pot, and the Fire Is On.” With Kevin Hassett, Blog and National Review
- ▶ “The Covid inflation,” *The Fiscal Theory of the Price Level* Ch. 21.

Bonds and Inflation



Monetary-fiscal coordination



- ▶ Standard NK model. $i_t = \phi\pi_t + u_t$. Different $\{u_t\}$ produce same $\{i_t\}$, different $\{\pi_t\}$ and different need for fiscal backing.
- ▶ Without fiscal contraction, higher i does not lower π .