



# Monetary Policy Normalization and Fiscal Space in the United States

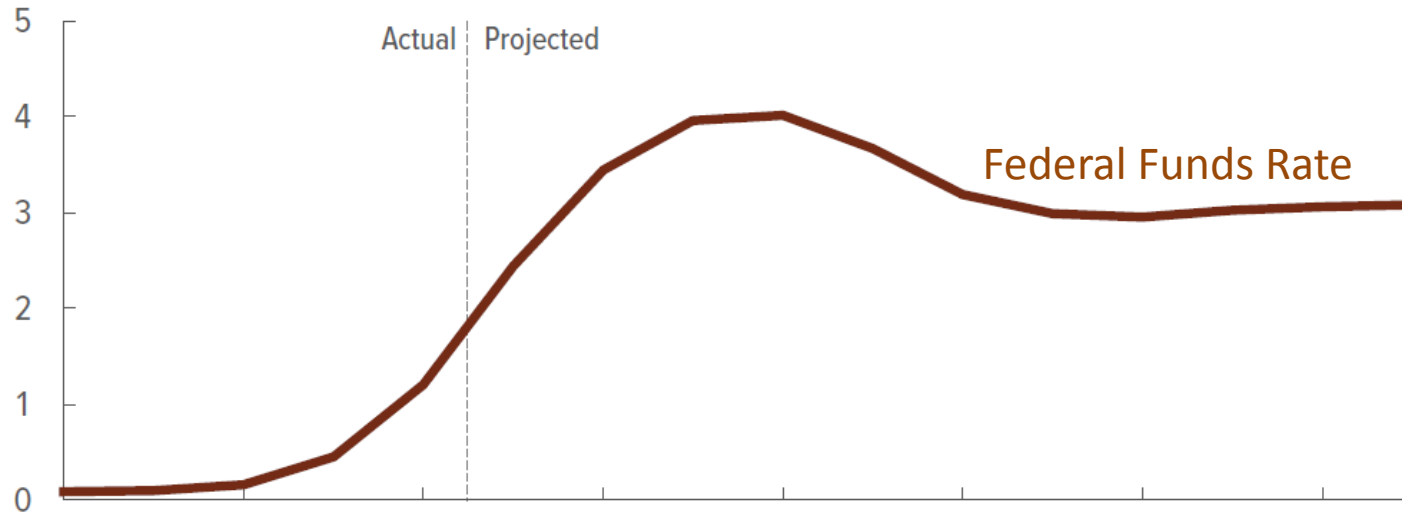
Alan Auerbach

May 31, 2018

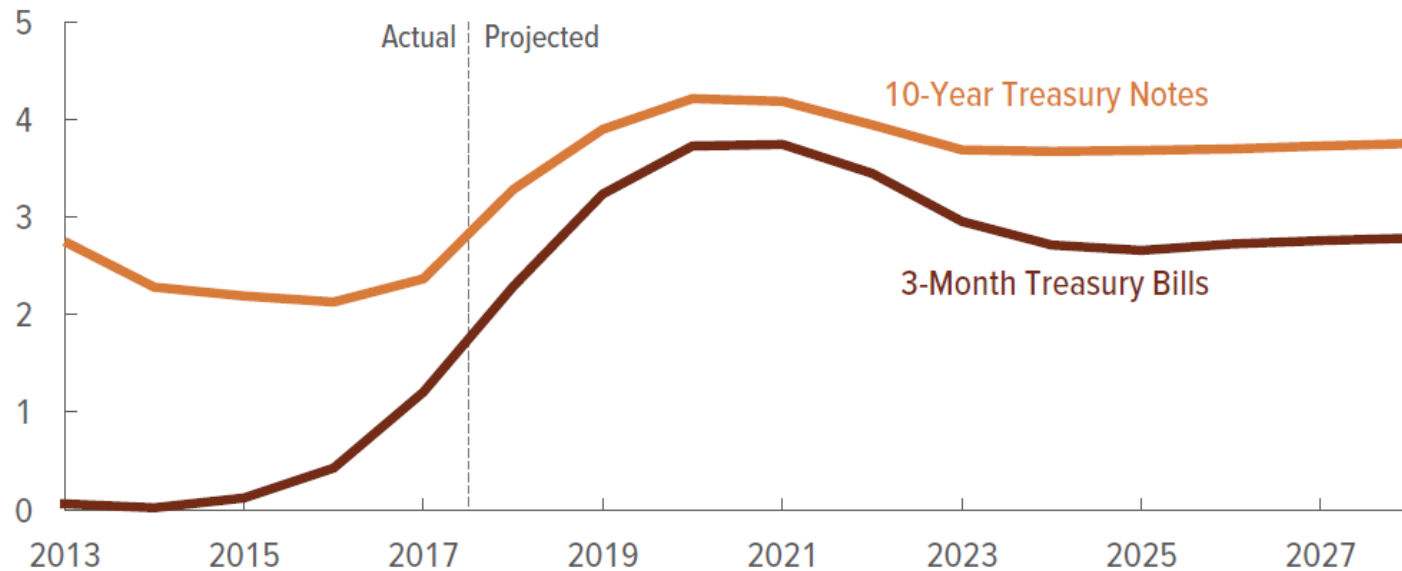
# Interest Rates



Percent

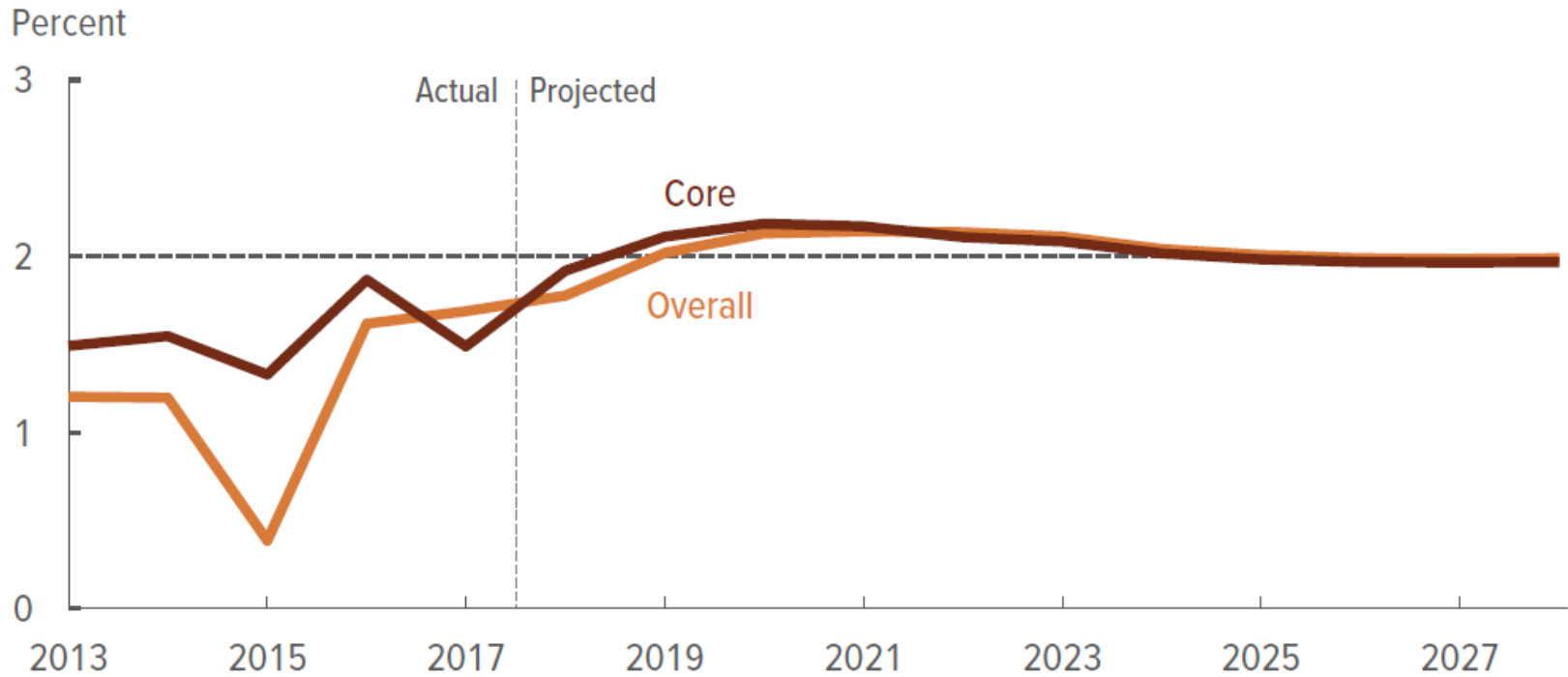


Percent



Source: CBO

## Inflation

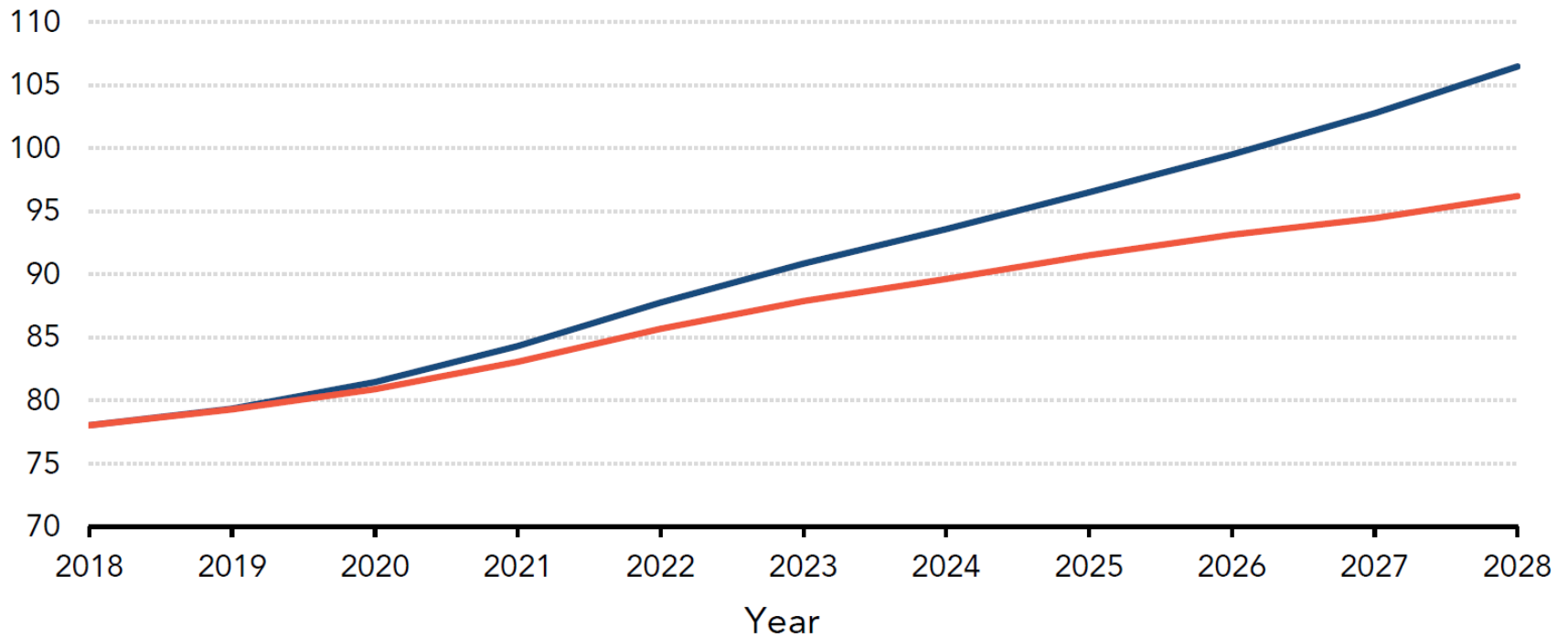


Source: CBO

**FIGURE 2**

## Debt Projections, 2018-2028

Percent of GDP

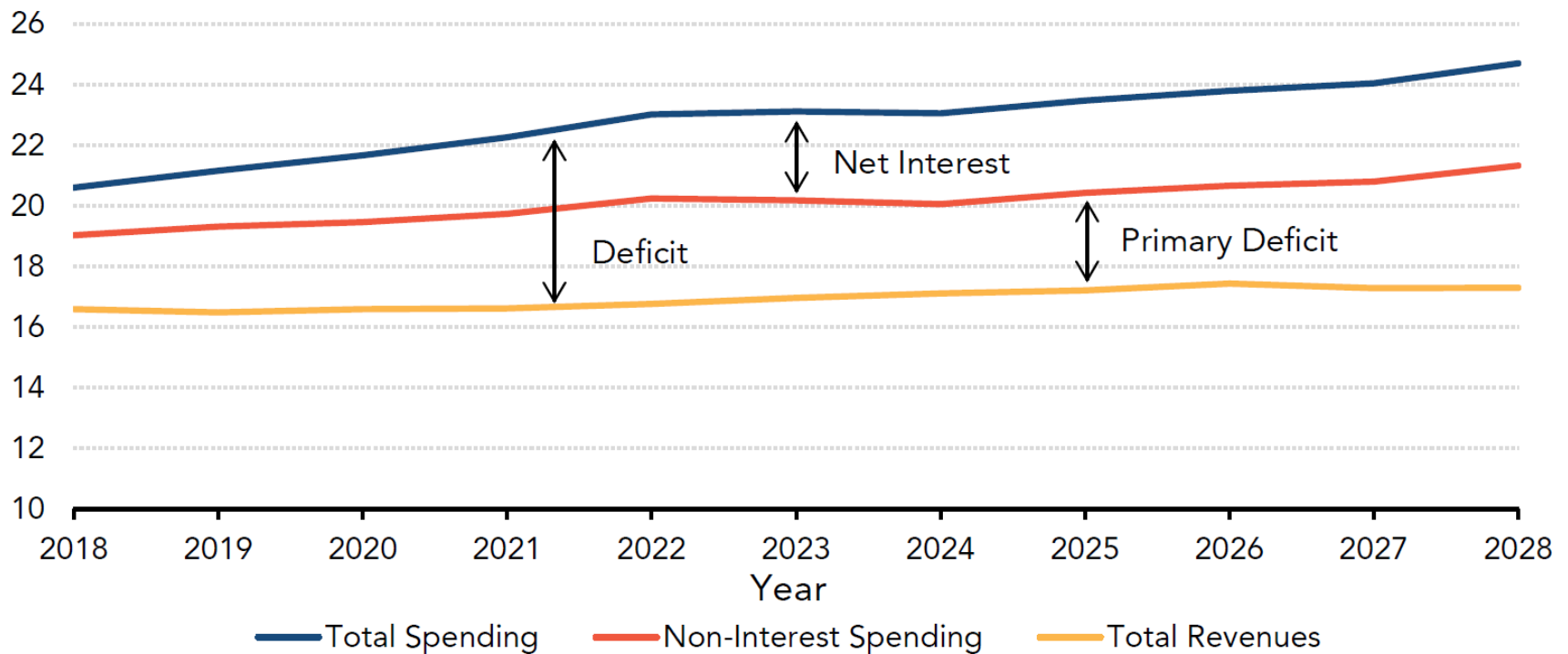


Source: Auerbach, Gale and Krupkin, 2018

**FIGURE 3**

# Spending, Revenue, and Deficits under Current Policy, 2018-2028

Percent of GDP

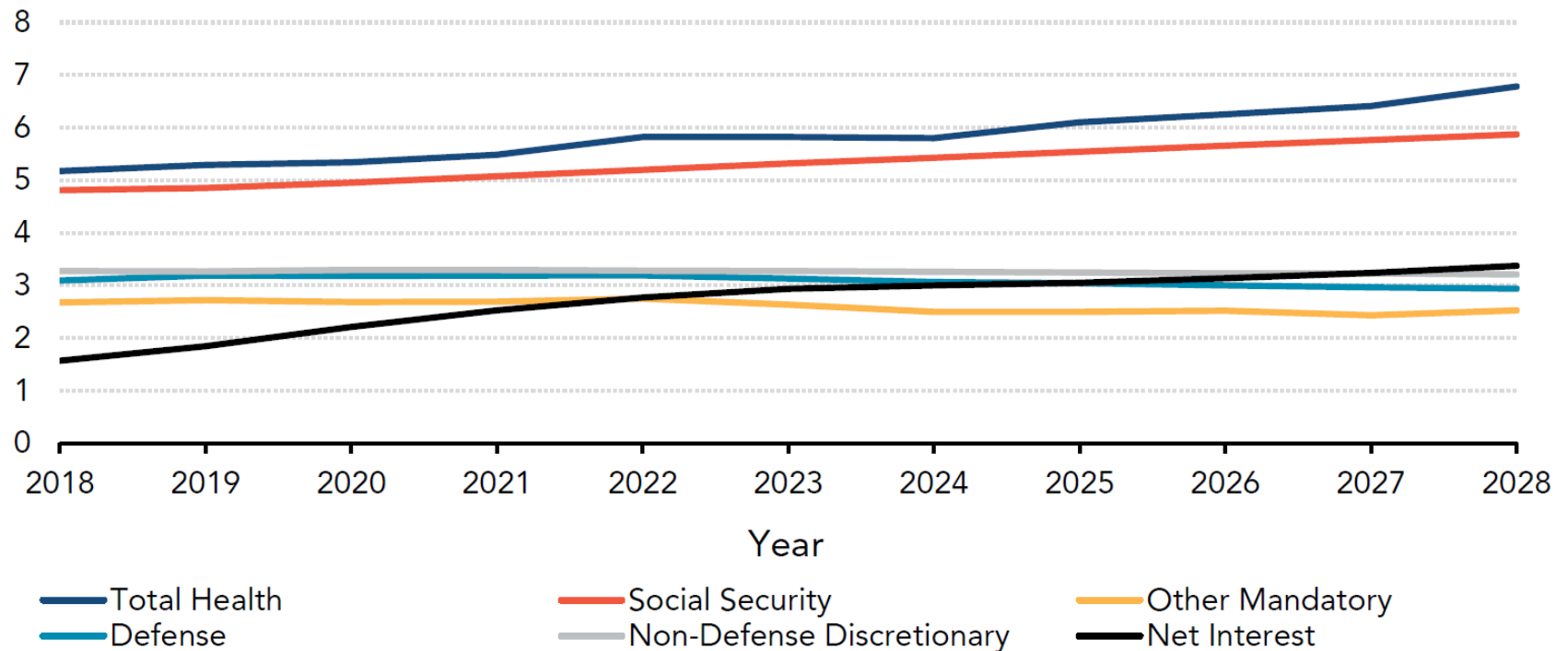


Source: Auerbach, Gale and Krupkin, 2018

FIGURE 4

# Composition of Spending under Current Policy, 2018-2028

Percent of GDP



Source: Auerbach, Gale and Krupkin, 2018

# Implications of Higher Interest Rates for Budget Policy

- **For long-term fiscal gap, not so much**
- **But perhaps more important for perceived fiscal space and political process**

# Implications of Higher Interest Rates for Stabilization Policy

- **More space for monetary policy**
- **But perhaps less space for fiscal policy**

