The Daily Dish

The American Rescue Plan and Macro Risks

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Eakinomics: The American Rescue Plan and Macro Risks

The press is catching on to the idea that one does not toss nearly $2 trillion of taxpayer money at a growing economy with rising income and wealth without generating some negative risks. When even *The New York Times* has the headline "Recast as 'Stimmies,' Federal Relief Checks Drive a Stock Buying Spree," something is up. And there is good reason to worry. The stimulus checks were not targeted at any financial distress; some will go to people who did not lose a day of work or a dime of income. So, what could be more fun than playing the stock market with free money?

As the *Times* put it, "Abraham Sanchez knew exactly how he wanted to spend his stimulus check. Like millions of Americans, he had begun dabbling in the stock market during the pandemic. So, soon after $1,400 from the federal government landed in his bank account last week, Mr. Sanchez, a 28-year-old trumpet player in Sacramento, moved all but $200 of it into his Robinhood online trading account. He then used most of it to buy 80 shares of AMC Entertainment, the struggling movie theater chain."

When the first round of checks was issued following the December legislation, the saving rate jumped to 20 percent in January. Hold on for another jump in March, with the funds flowing into asset like equities, houses, and commodities. Financial market volatility will put the Fed under the gun. Will it tighten financial market conditions in the search for financial stability? If so, will it put the recovery at a risk of slowing (or worse)?

Former Secretary of the Treasury Larry Summers made headlines when *Bloomberg* reported, "He said there is a one-in-three chance that inflation will accelerate in the coming years and the U.S. could face stagflation. He also saw the same chance of no inflation because the Fed would hit the brakes hard and push the economy toward recession. The final possibility is that the Fed and Treasury will get rapid growth without inflation."

His analysis puts the emphasis on consumer prices. I think the bigger risk is asset prices, but both would put the Fed on the spot. And I could not disagree with the bottom line, "'But there are more risks at this moment that macroeconomic policy will cause grave risks than I can remember,' said Summers."