



THREE WORLD WARS: FISCAL-MONETARY CONSEQUENCES  
BY G. HALL, T. SARGENT

DISCUSSION BY E. McGRATTAN

HOOVER INSTITUTION, MAY 2022



## Features of Wars

- Large temporary increase in government spending
- Large declines in civilian workforce
- Restrictions on production and trade



## Additional Features of US Wars

- Subsequent inflationary periods
- Significant increases in debt levels



## Discussion: Two Questions

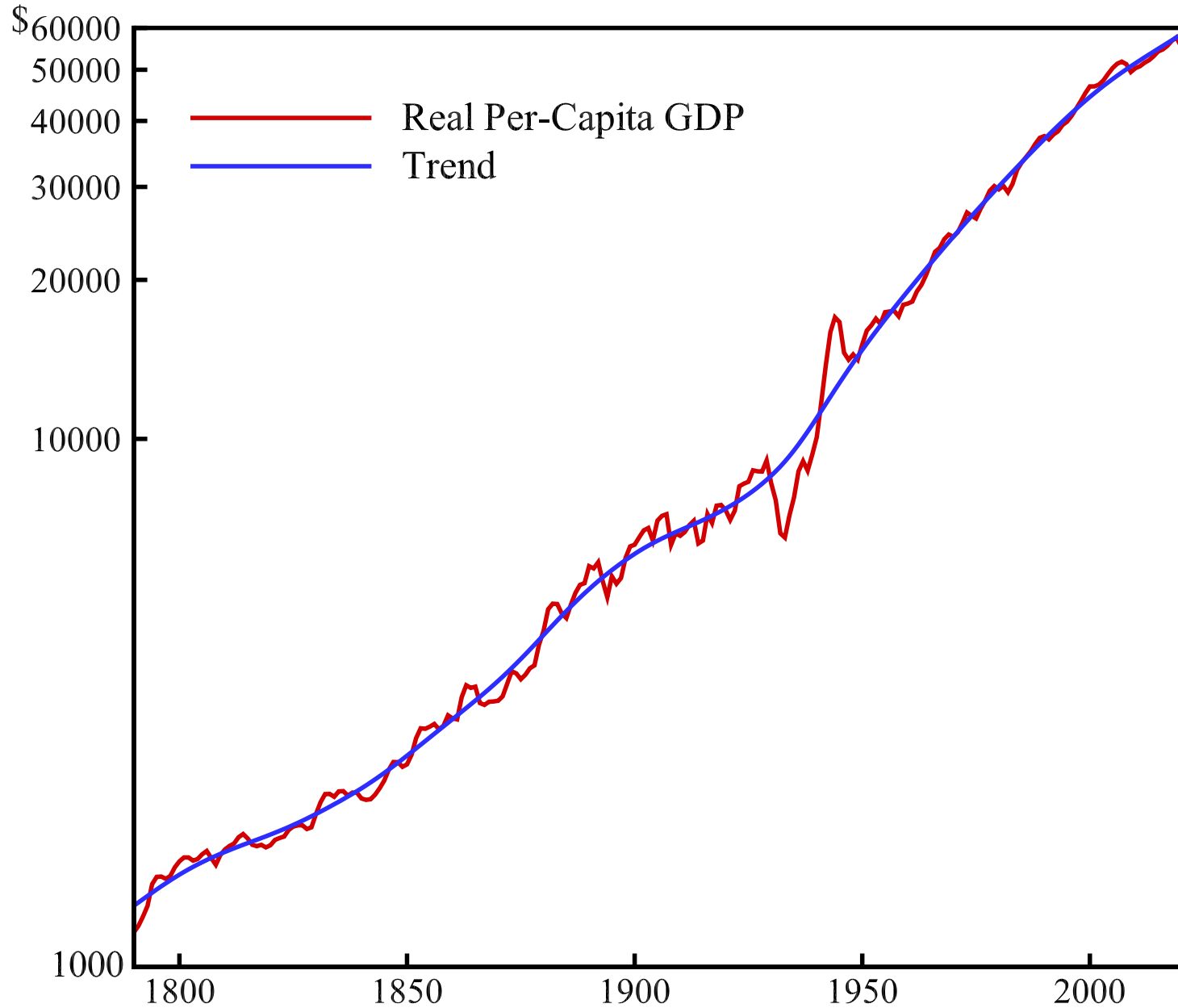
- Is COVID-19 like a world war?
- Who will pay?



IS COVID-19 LIKE A WORLD WAR?

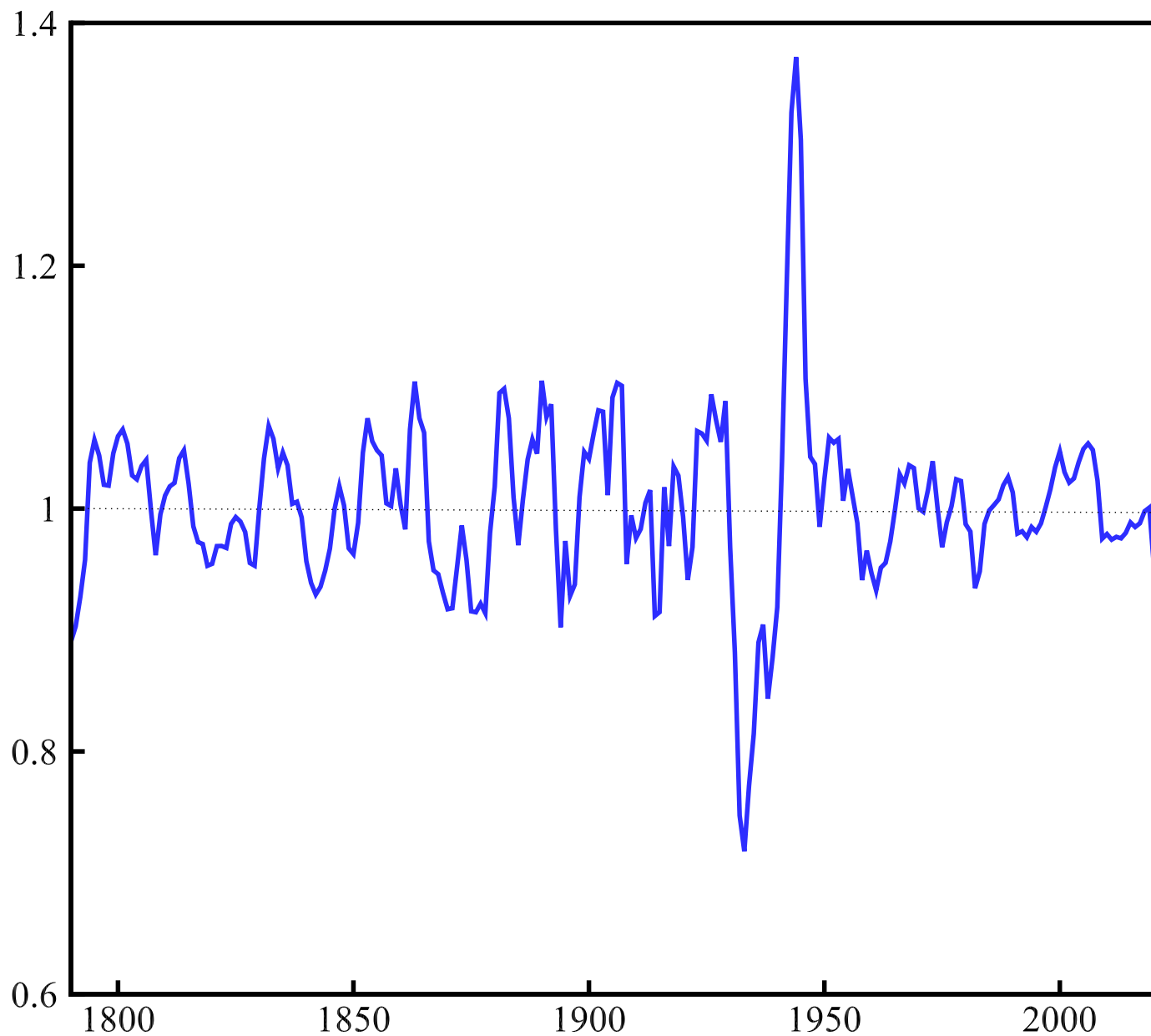


# Historical Real GDP Per Capita (2012\$)



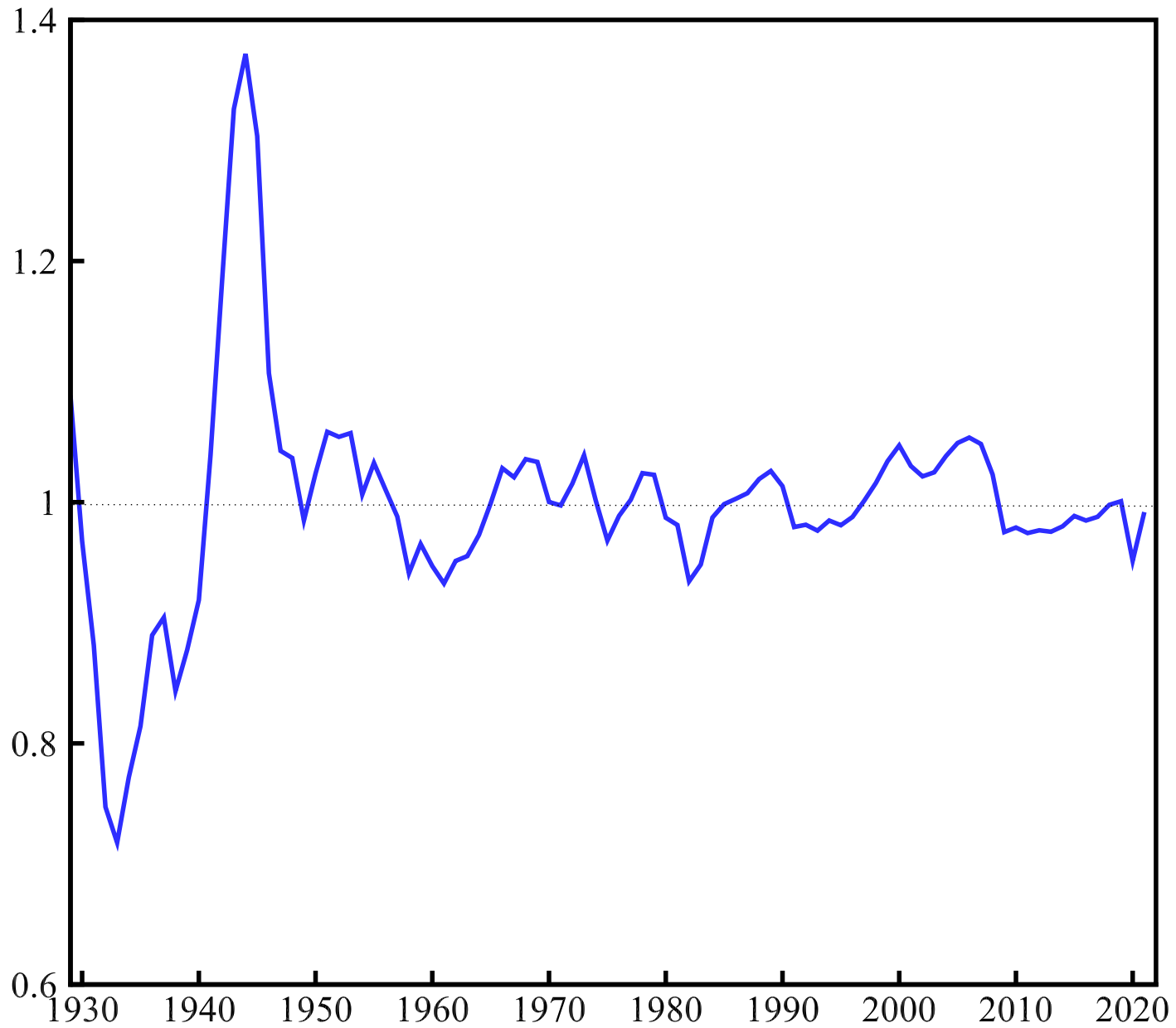


# Real GDPPC: Divide by Trend





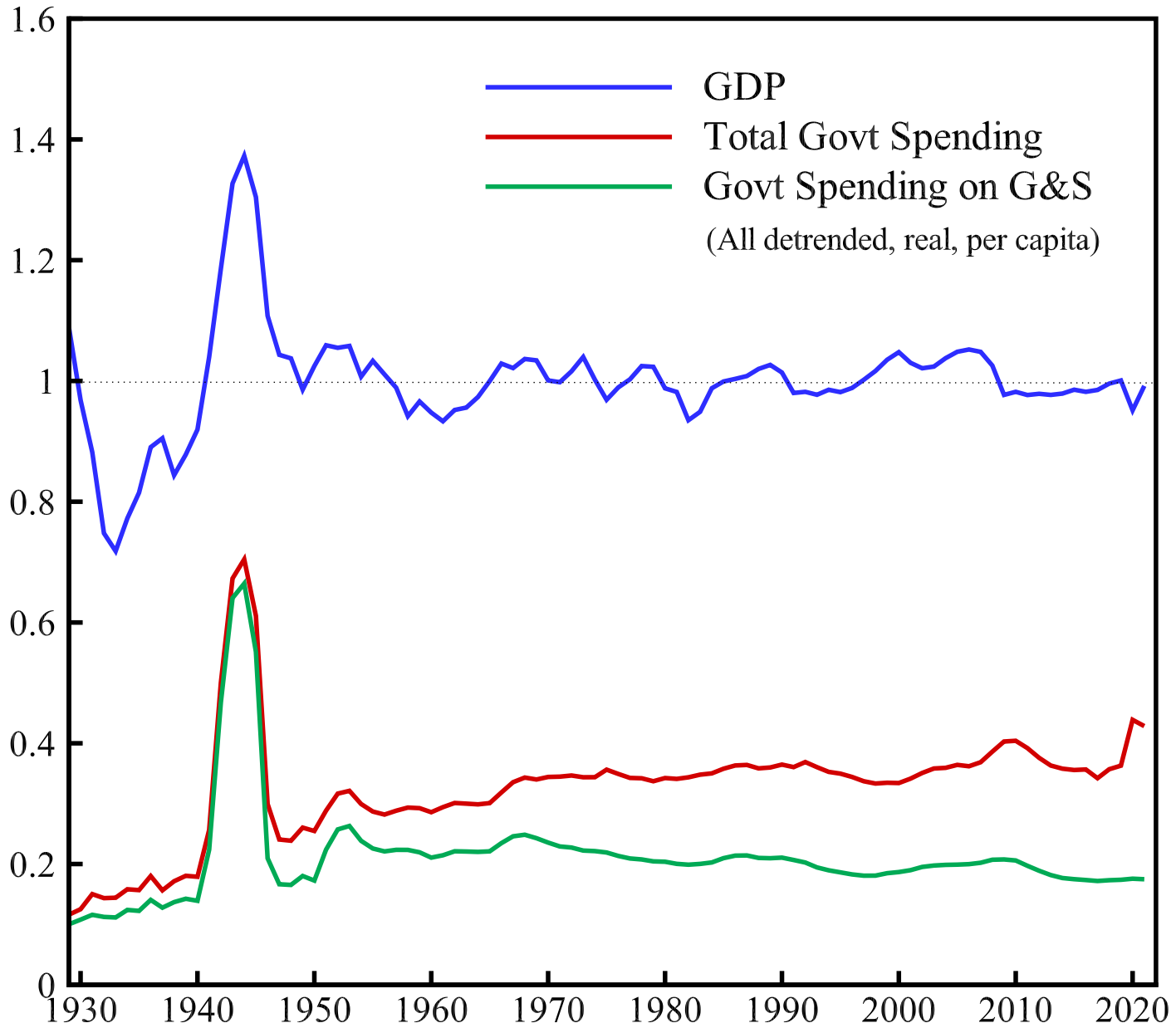
# Real GDPPC: 1929-2021





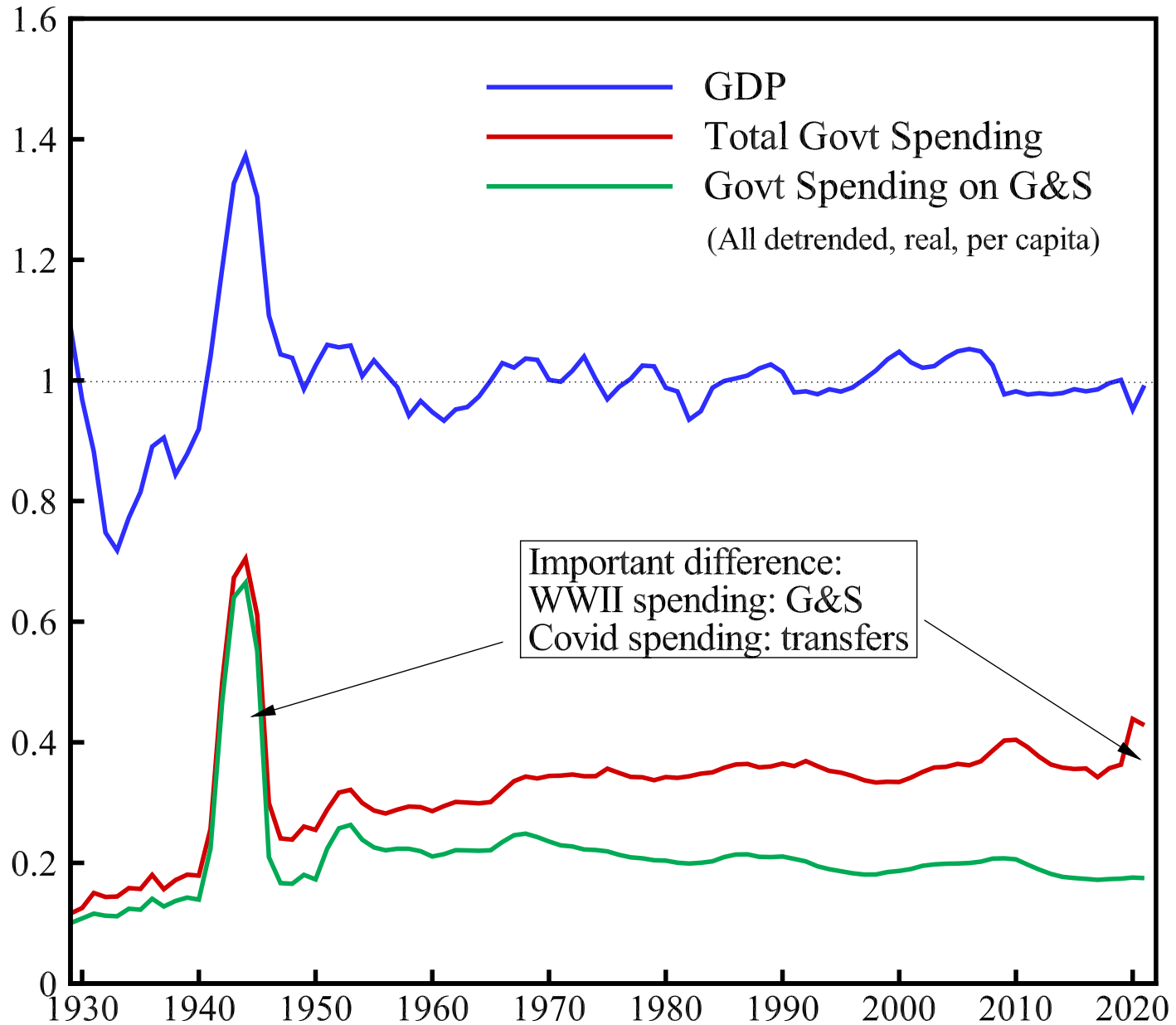


# Two Measures of Spending



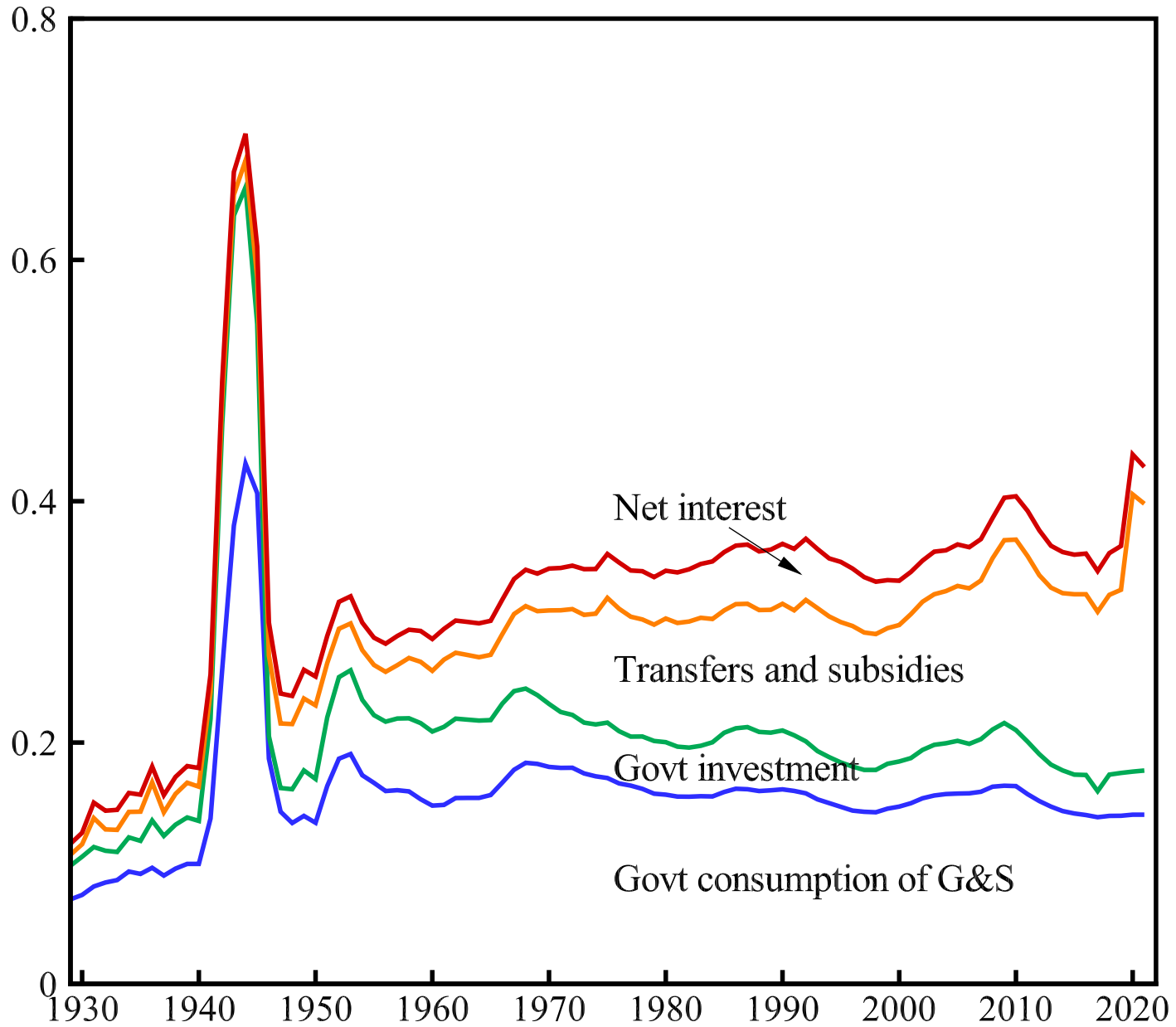


# Two Measures of Spending



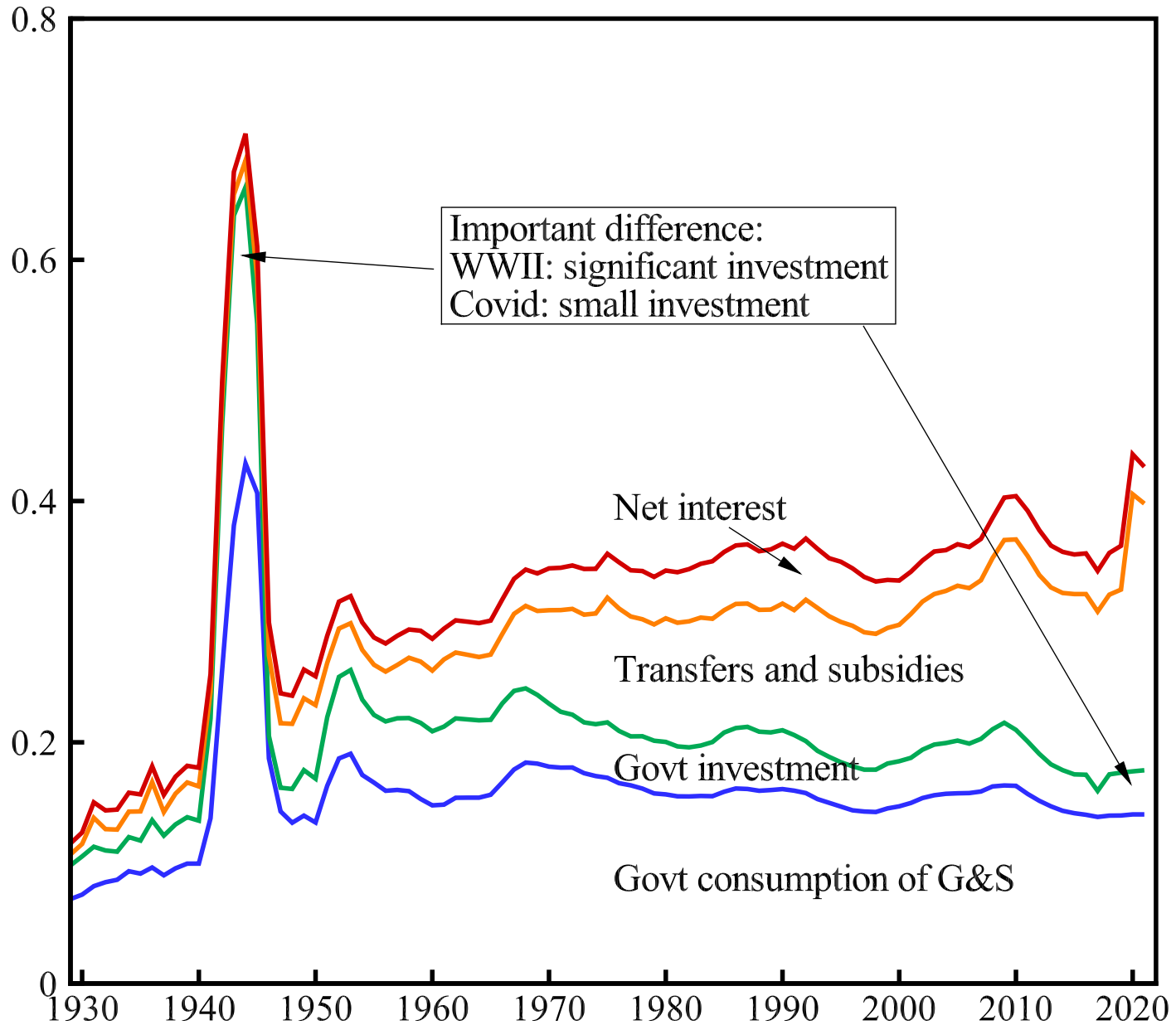


# Deeper Dive into Total Spending



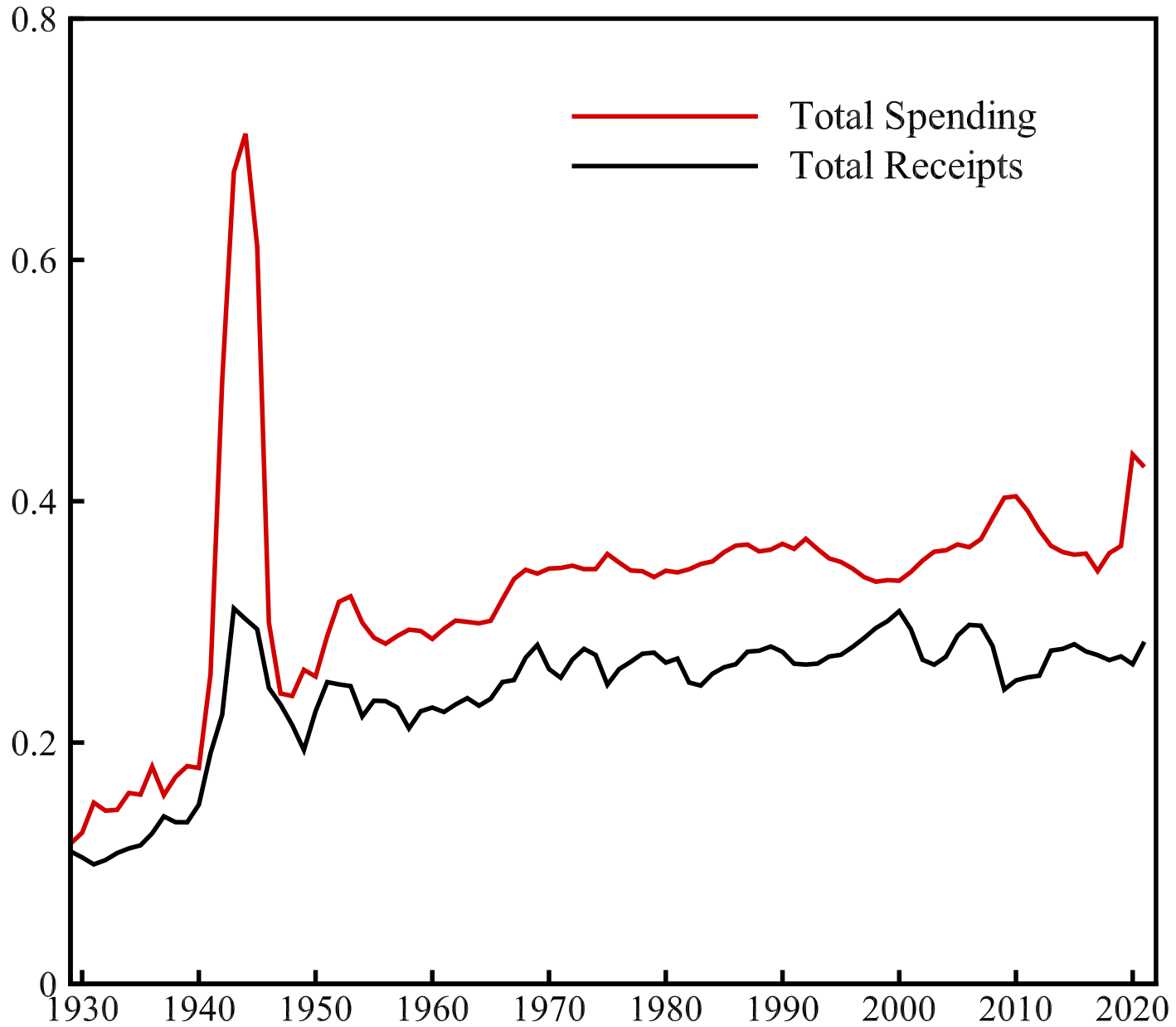


# Deeper Dive into Total Spending



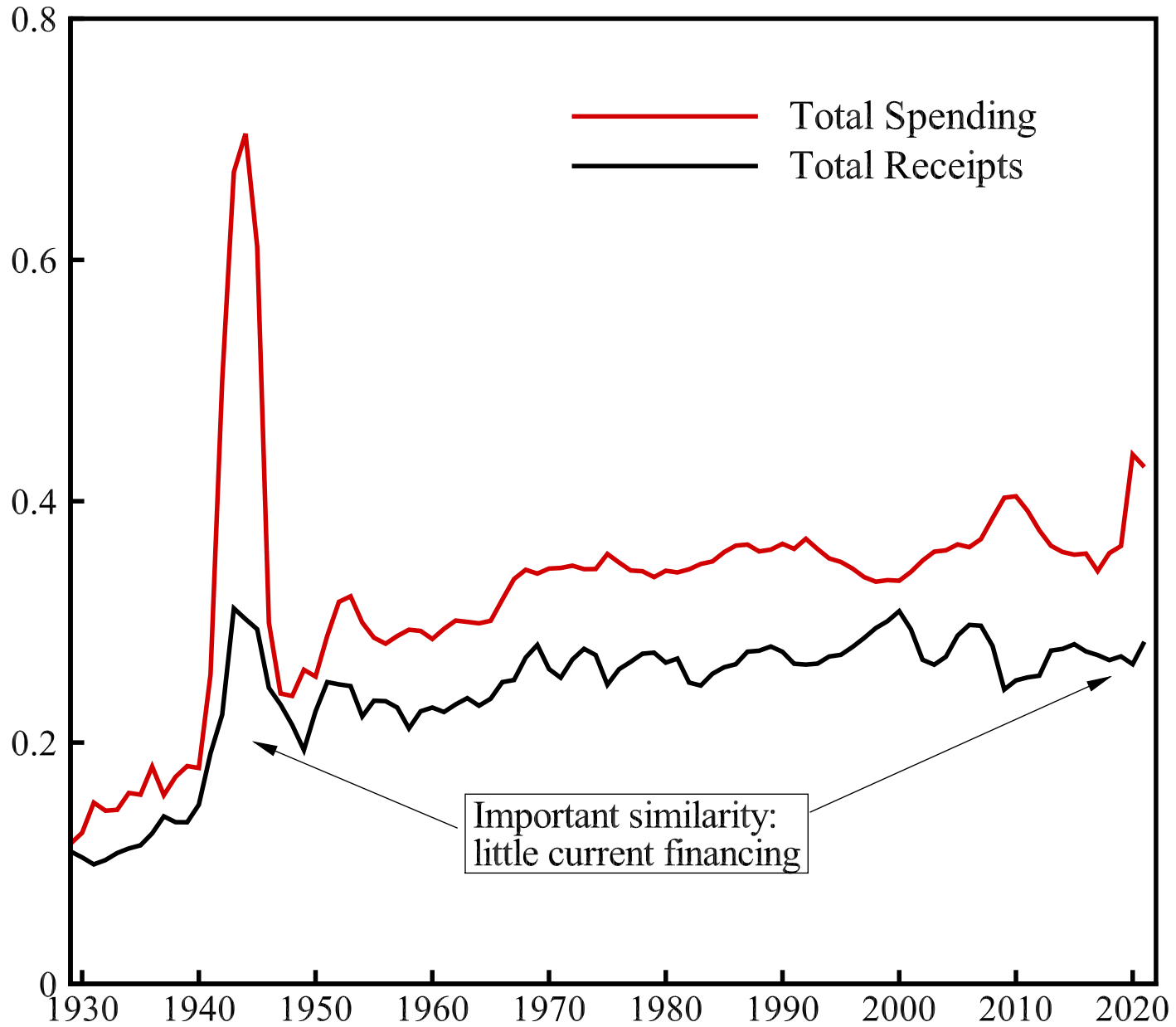


# How Much Covered by Current Receipts?



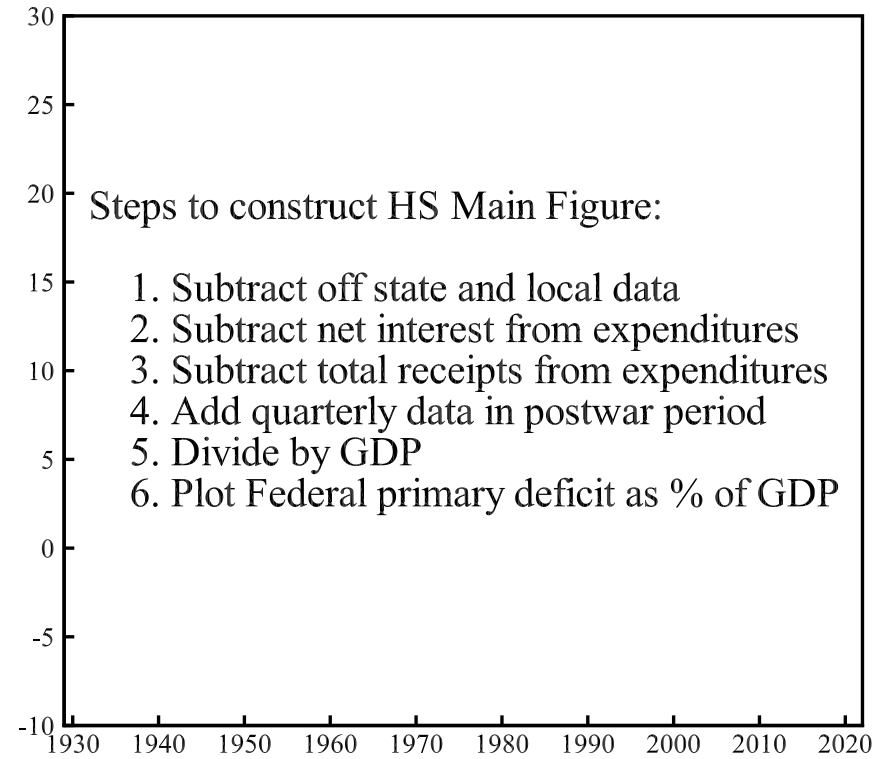
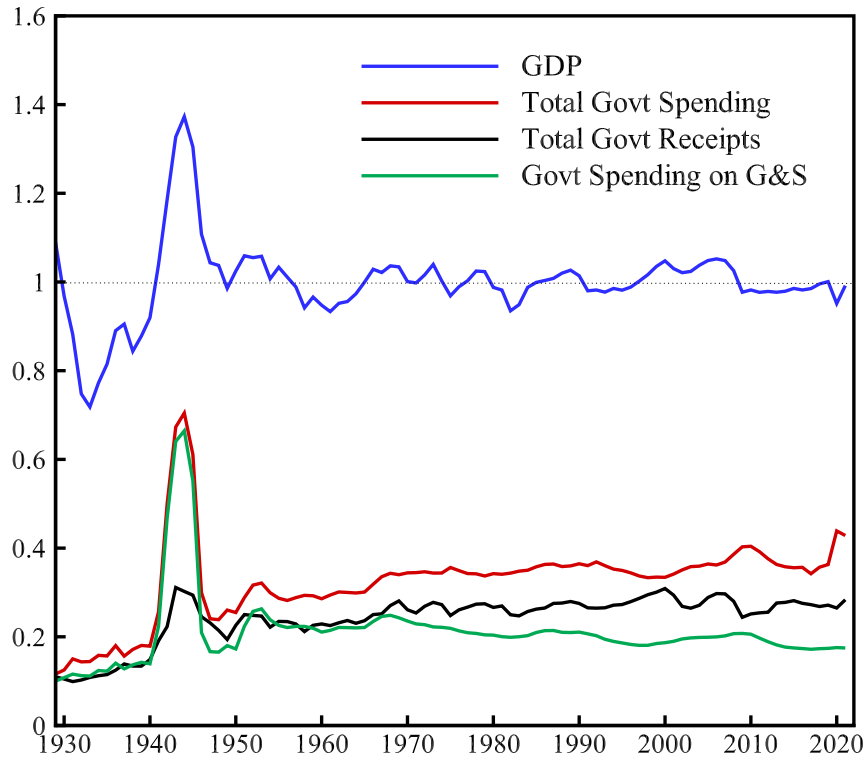


# How Much Covered by Current Receipts?



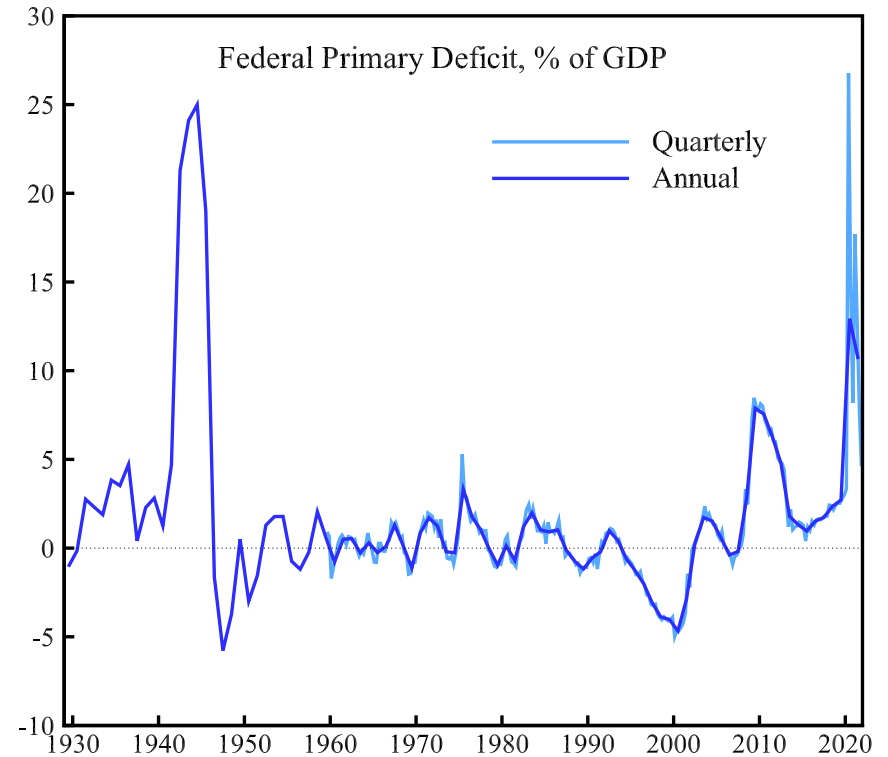
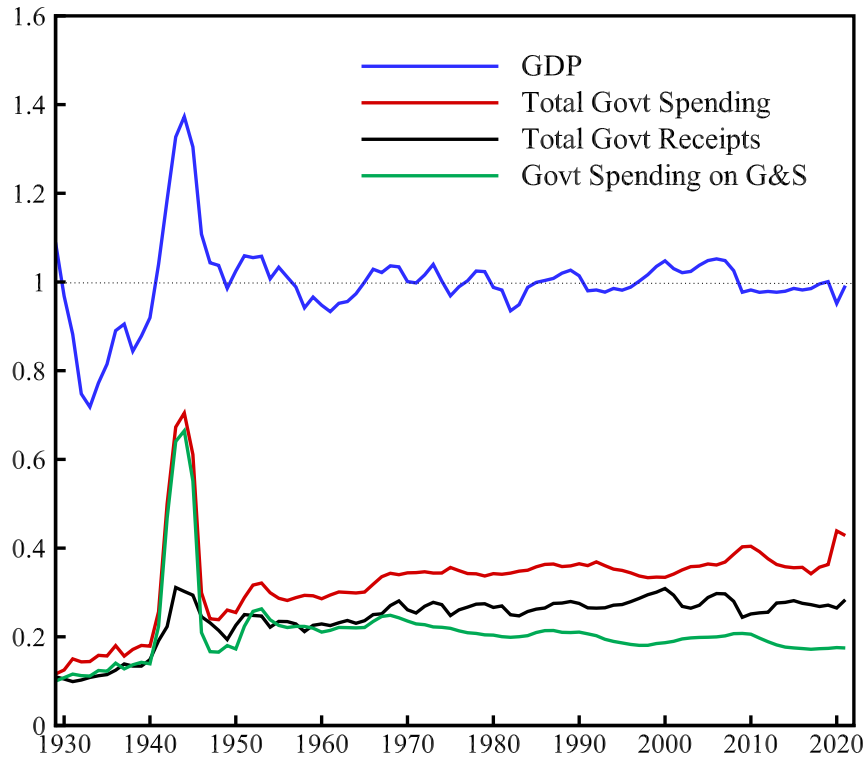


# Compare to Hall-Sargent





# Compare to Hall-Sargent



- Punch lines:

- Dividing by GDP obscures differences with WWII
- Breaking down spending highlights differences
- COVID extends growth in unfinanced transfers

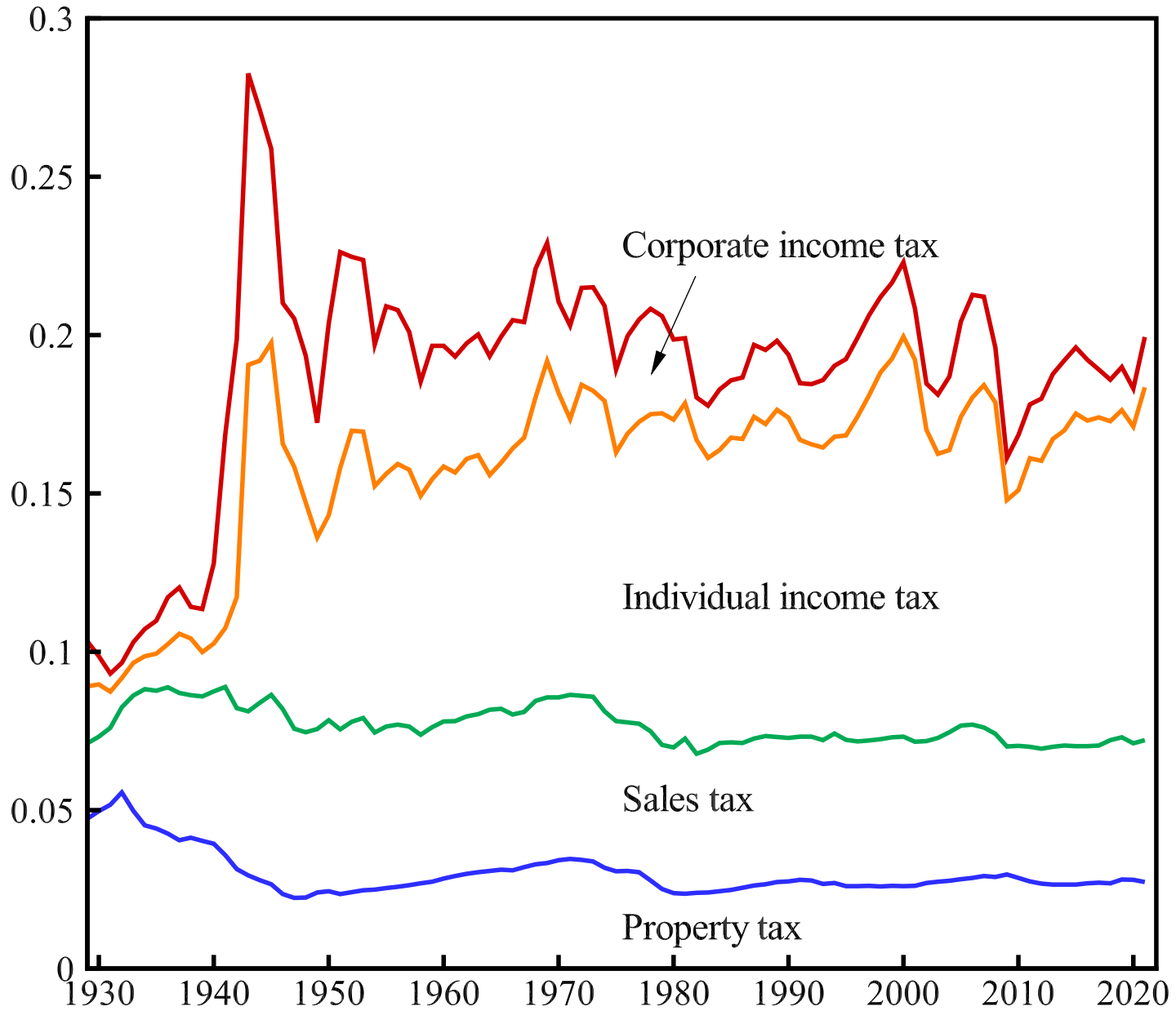




WHO WILL PAY?

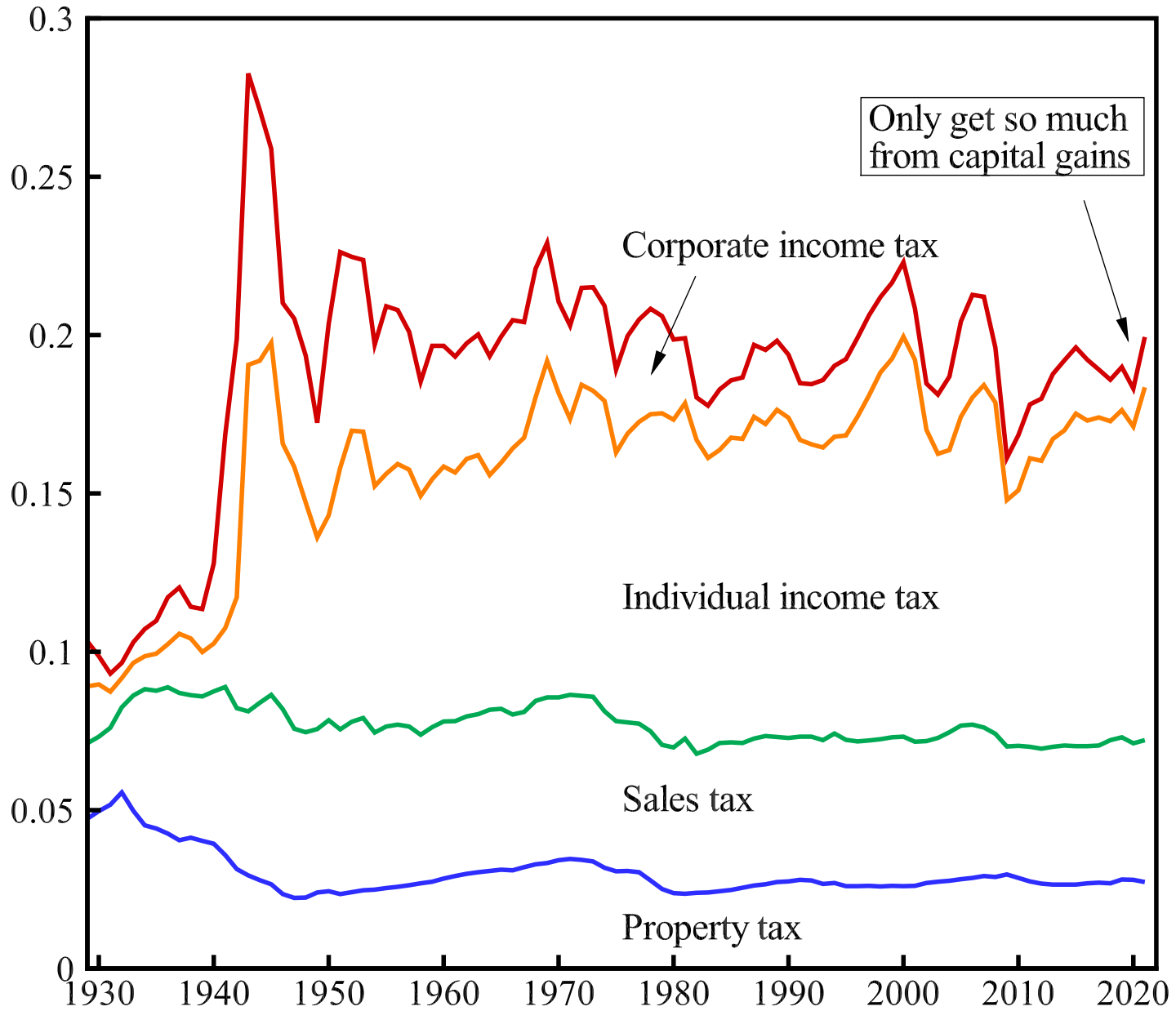


# Current Taxpayers?



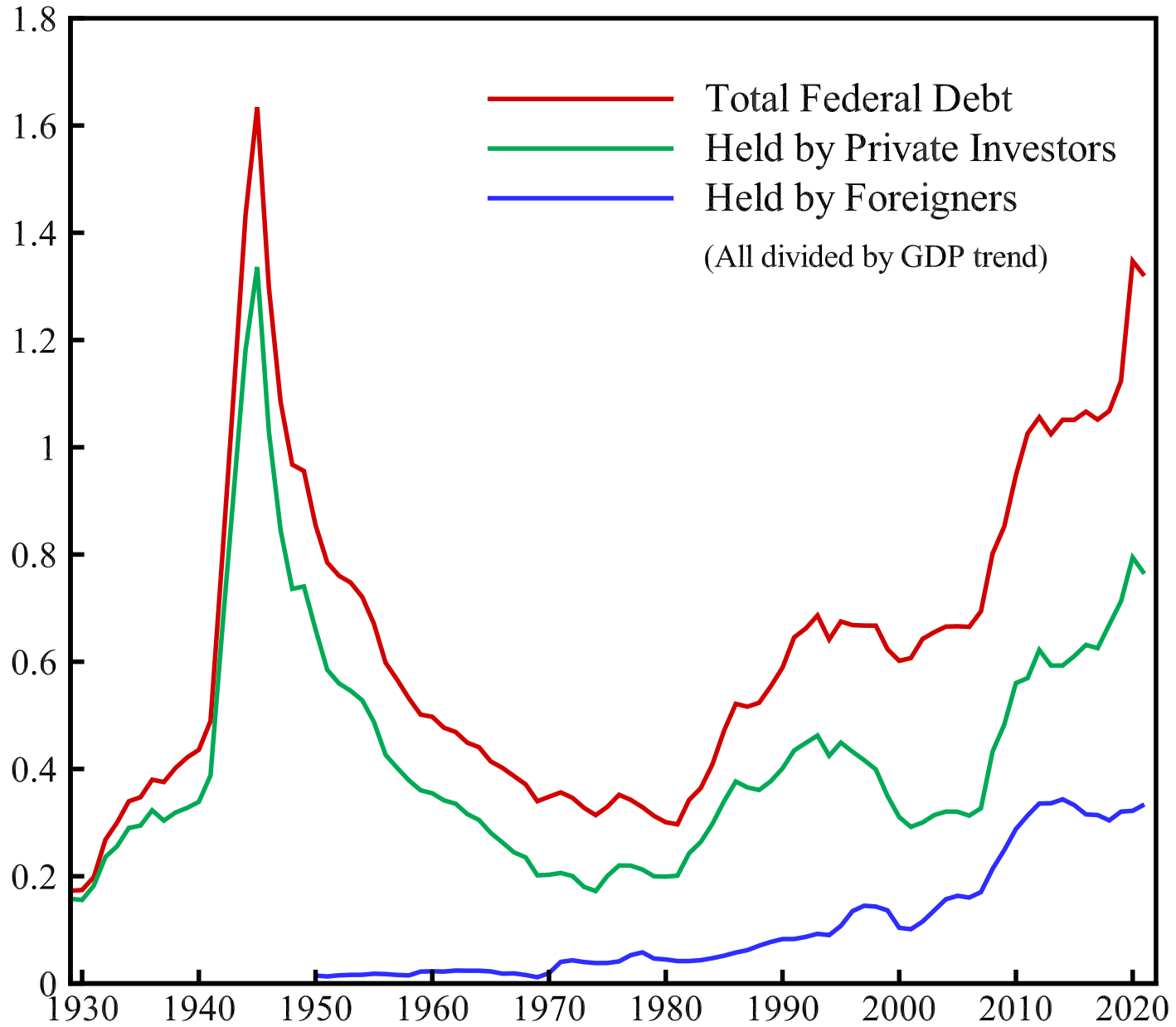


# Current Taxpayers?



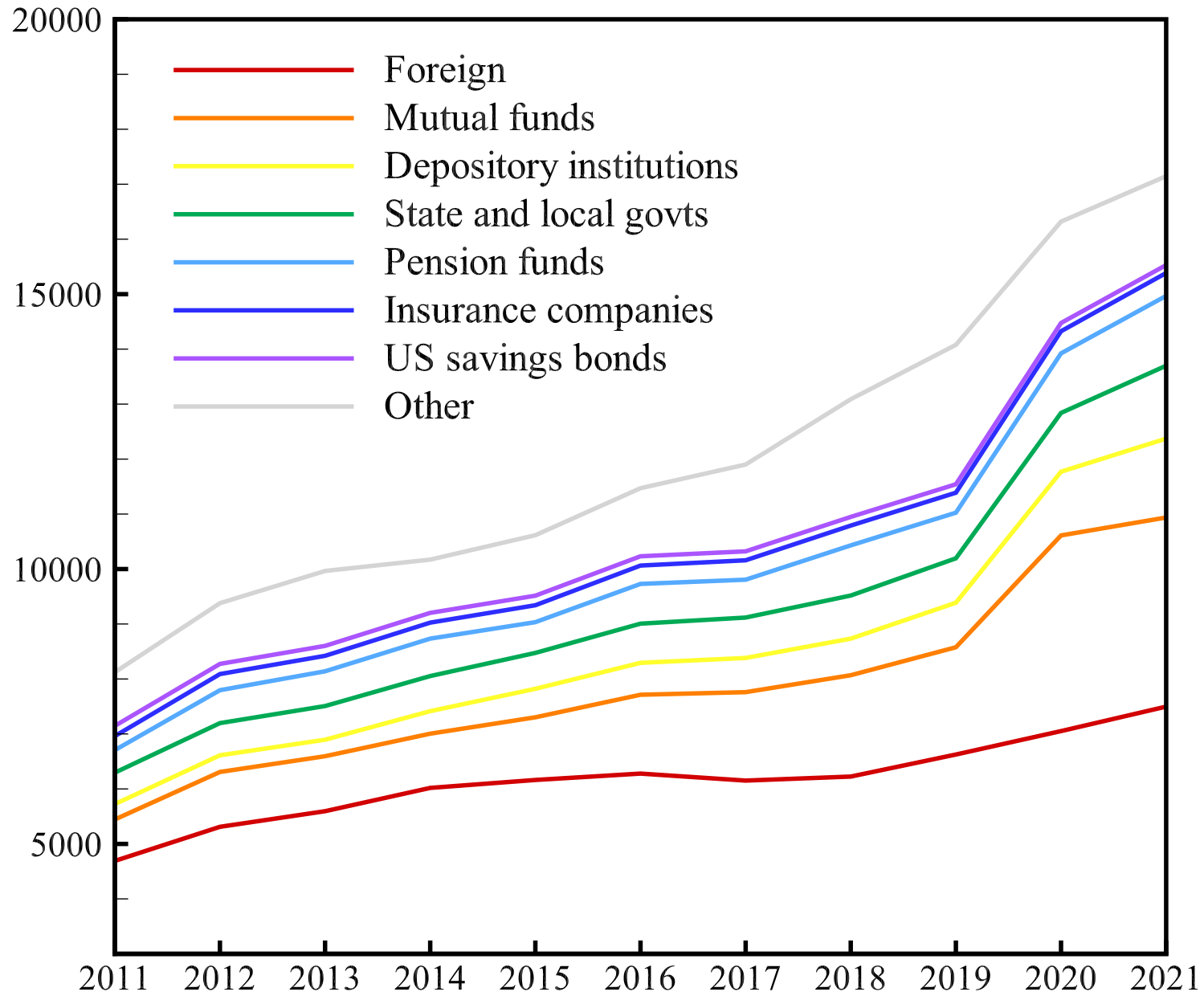


# Bondholders?





# Which ones?





## Summary: Two Answers

- Is COVID-19 like a world war?
  - No large increase in G&S spending as in WWII
  - Just further expansion of unfinanced transfers
- Who will pay?
  - Likely future individual income taxpayers