

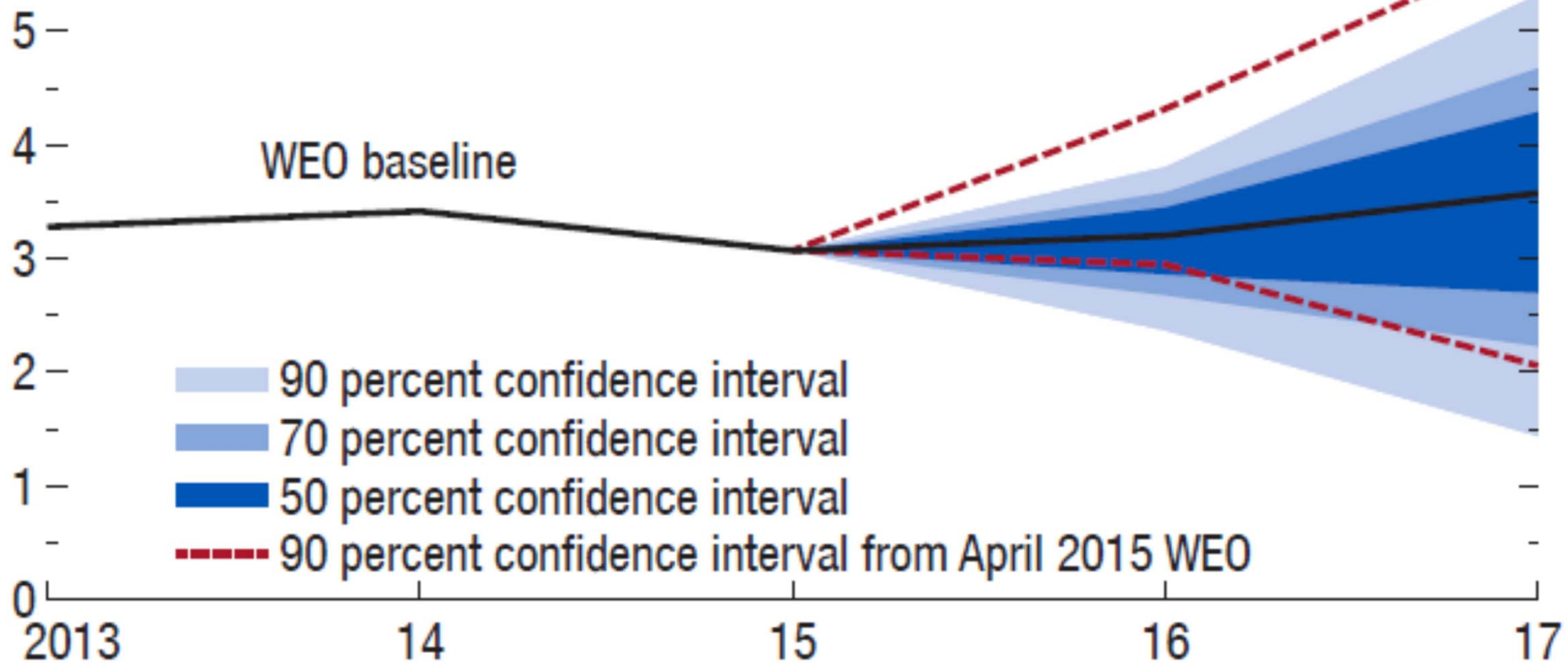
Fissures in Global Financial System

Kenneth Rogoff, Harvard University
Asian Monetary Policy Forum
Singapore, May 26, 2016

Outline

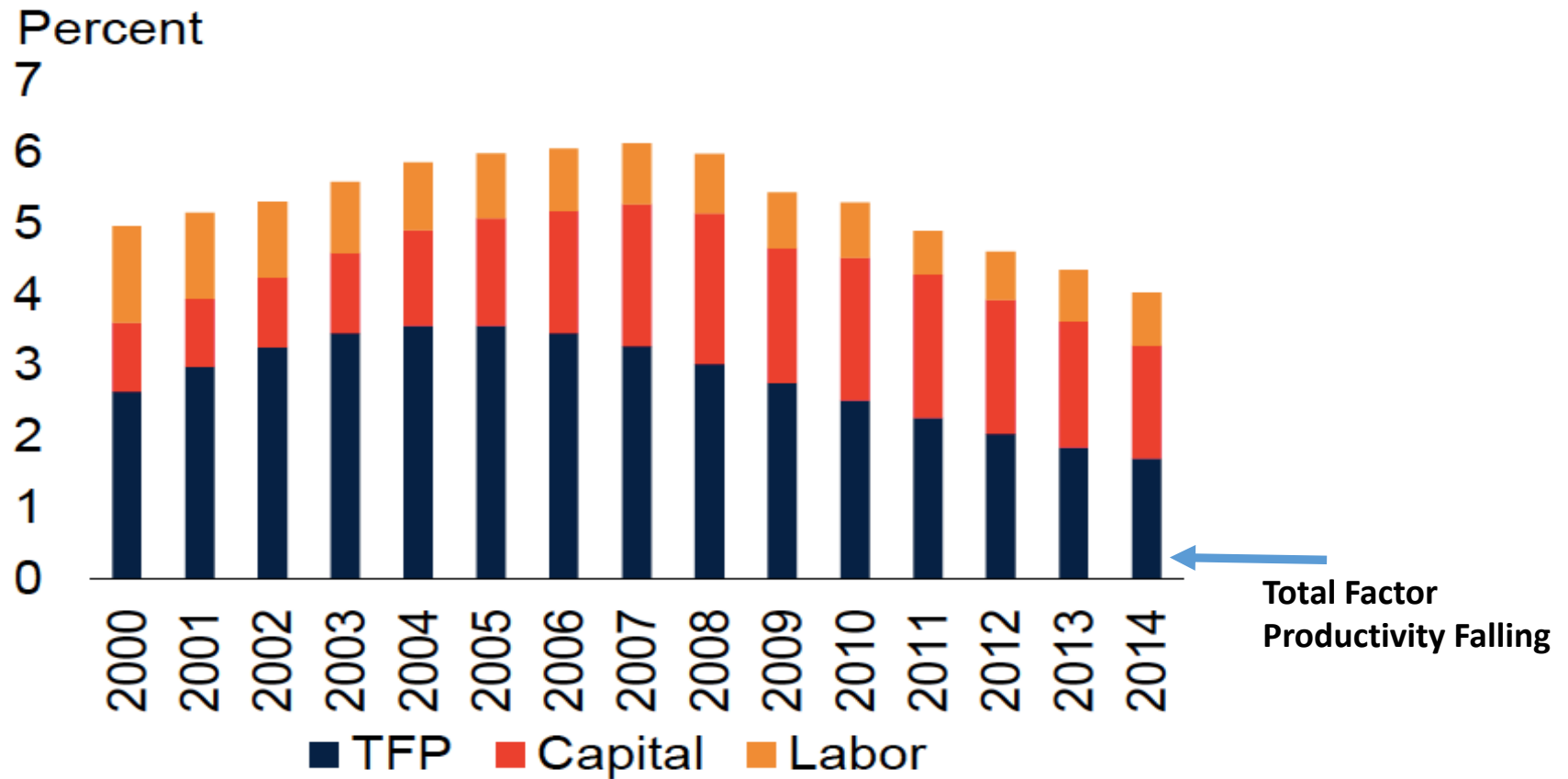
- The Debate over Slowing Global Growth
 - Secular Stagnation versus Debt Supercycle
 - Attendant Rise of Populism
 - US election
 - Brexit
 - TPP
 - Risks to emerging markets
- The Evolution of Global Exchange Rate System
 - Success of flexible exchange rates
 - Continuing dominance of the dollar
 - Why a more balanced multi-polar system has not arisen
- Scarcity of Safe Assets
 - How the zero bound is used to rationalize dubious policy suggestions
 - Why Emerging Markets Should further Diversify Reserve Assets into Gold

1. Prospects for World GDP Growth¹ (Percent change)



K Rogoff Harvard: Source: April 2016 WFO

RECENT CONTRIBUTION TO POTENTIAL GROWTH IN BRICS

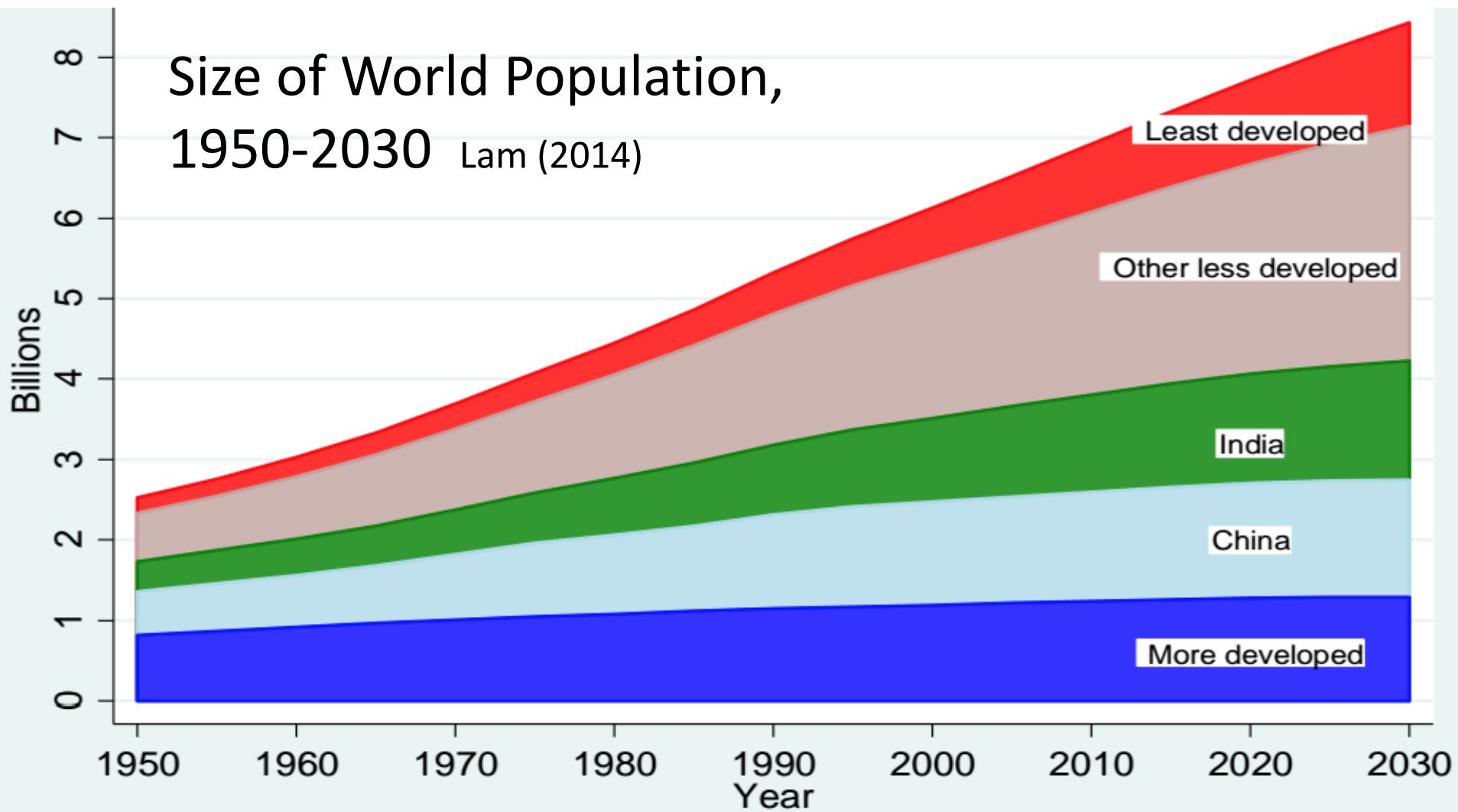


Source: World Bank

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But has innovation really slowed?

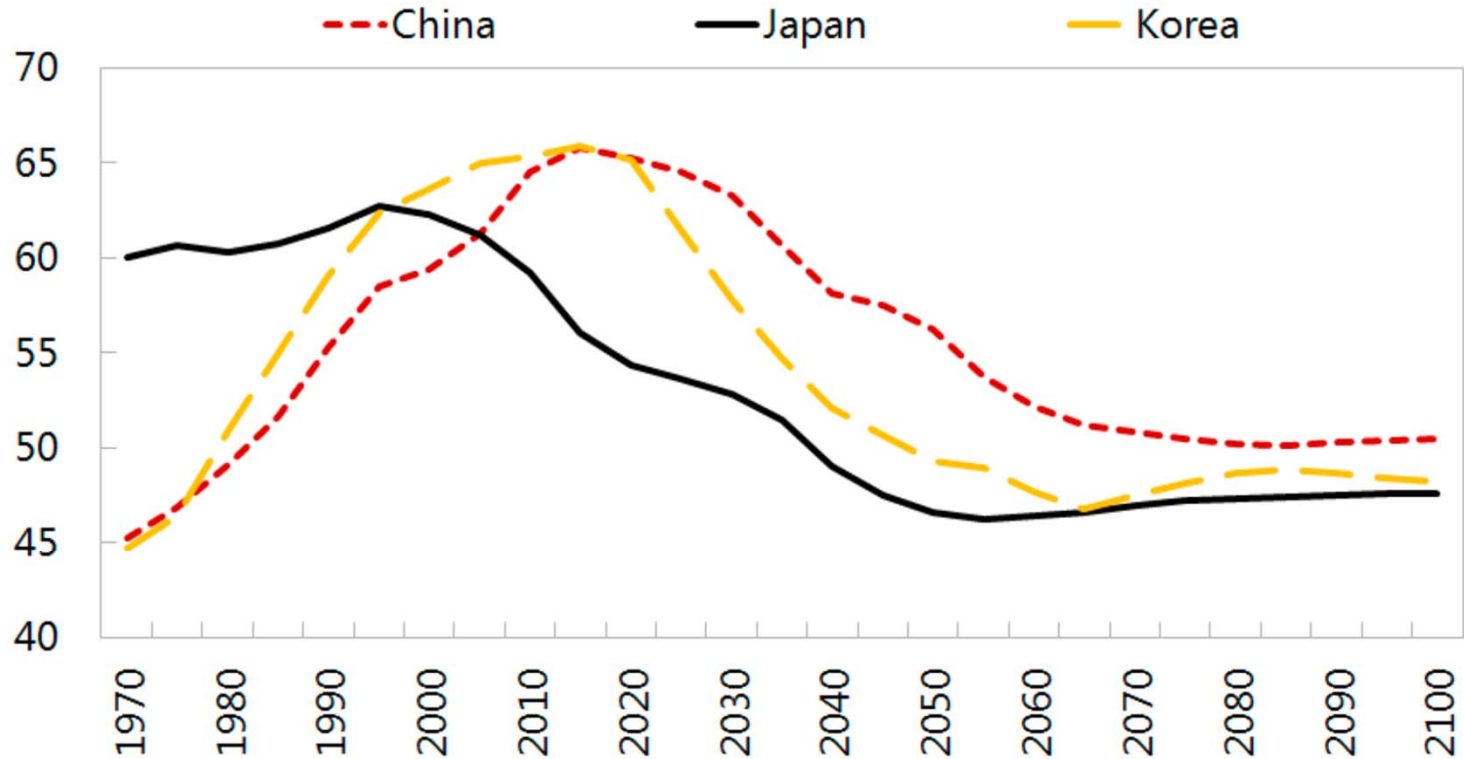
Size of World Population, 1950-2030 Lam (2014)



Note: World Population Prospects: 2012 Revision, Medium Variant

Working-Age Population Ratio

(In percent of total population)



Source: The United Nations *World Population Prospects 2012*.

Note: Working age is 20-64.

Hypocrisy surrounding Inequality Debate

- Progressive Agenda Against Free Trade in the United States
- Anti-Immigrant Sentiment in the US and Germany
- Brexit

The Secular Stagnation Argument Ignores Debt Overhang and Recovery from Financial Crisis

In many ways a plain vanilla financial crisis

- Reinhart and Rogoff (2009) give quantitative markers of the slow growth that occurs after financial crises, and these markers have been very good predictors of post-financial crisis growth, unemployment, and debt accumulation; also stock markets and housing markets.

What was the same

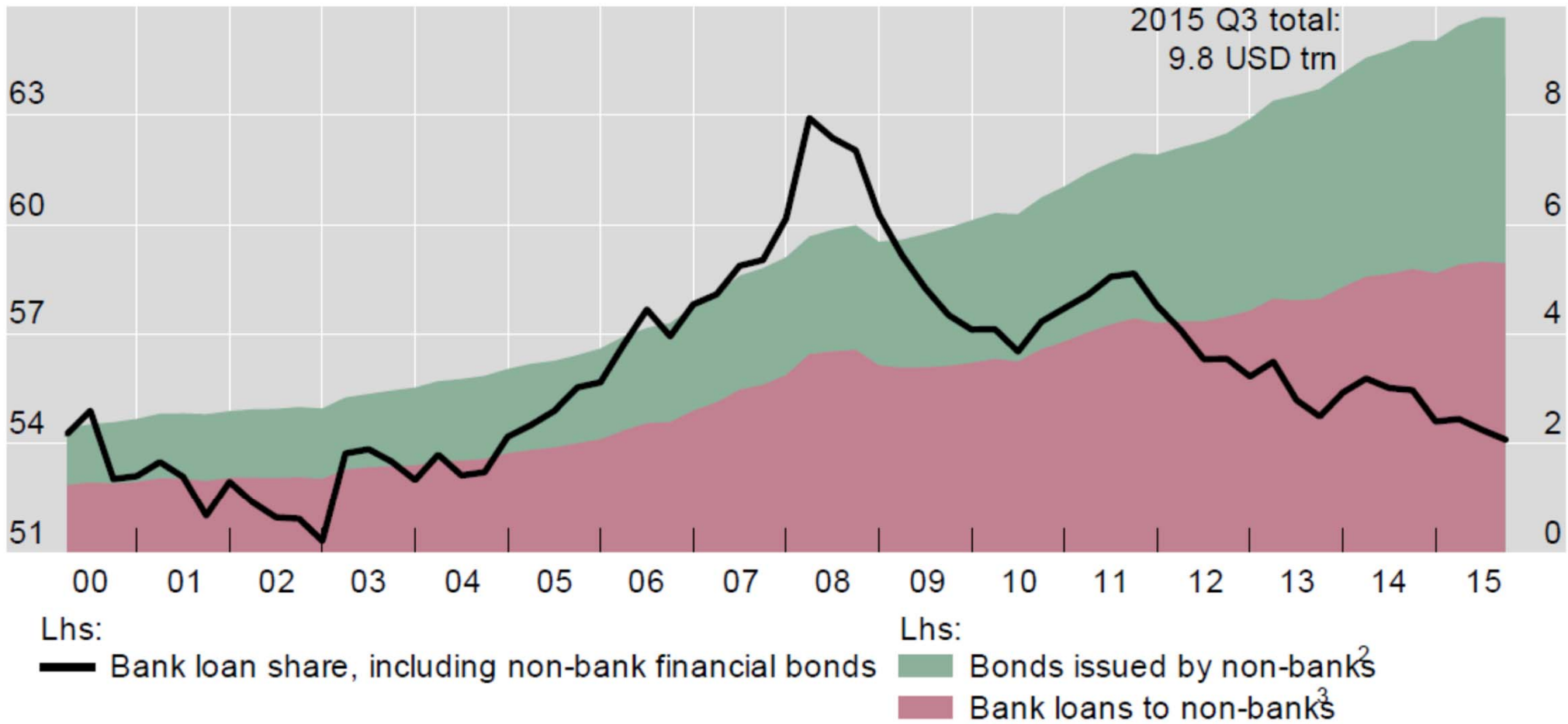
- Over-exuberance surrounding growth
- Lax regulation deep into the cycle
- Excessive build-up of credit
- Housing and asset price boom
- Systemic collapse
- Deep recession, very slow recovery (Reinhart-Rogoff)
- Sustained high unemployment, housing and asset price collapse, but much faster recovery in debt markets
- Massive Buildup of Government Debt

THIRD LEG OF DEBT SUPERCYCLE

Now decline in commodity prices and rising US interest rates are both causes and symptoms of slowdown in BRICs, CHINA, all slowing dramatically except India

To what extent does global exchange rate regime exacerbate underlying real shocks?

- Success of more flexible exchange rate regimes
- Continuing dominance of the dollar

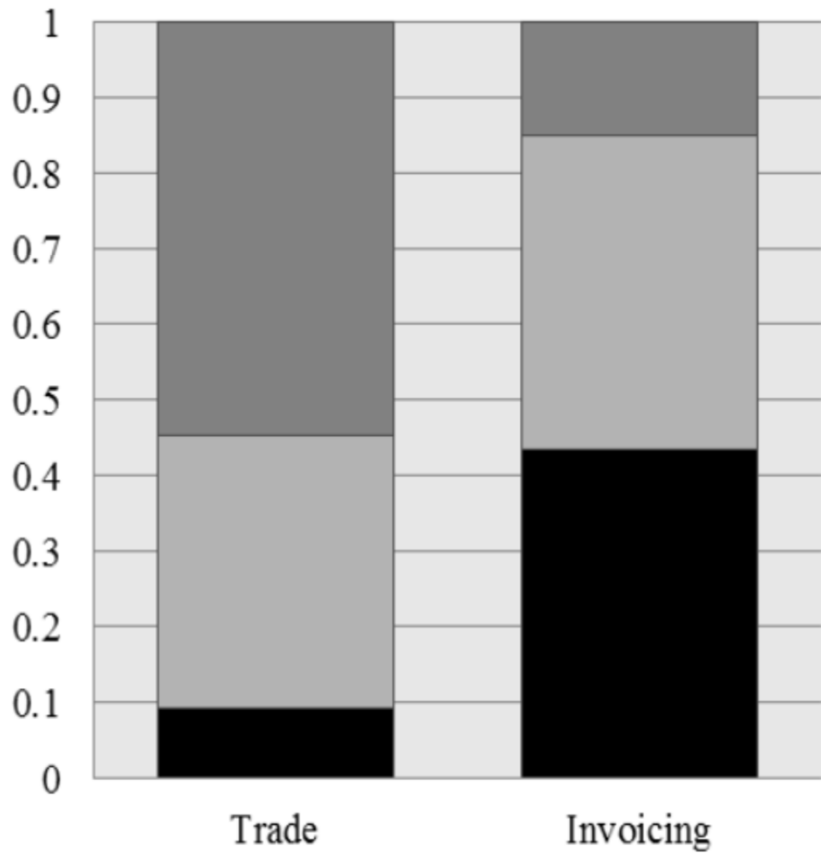


Source: Hyun Shin (2016)

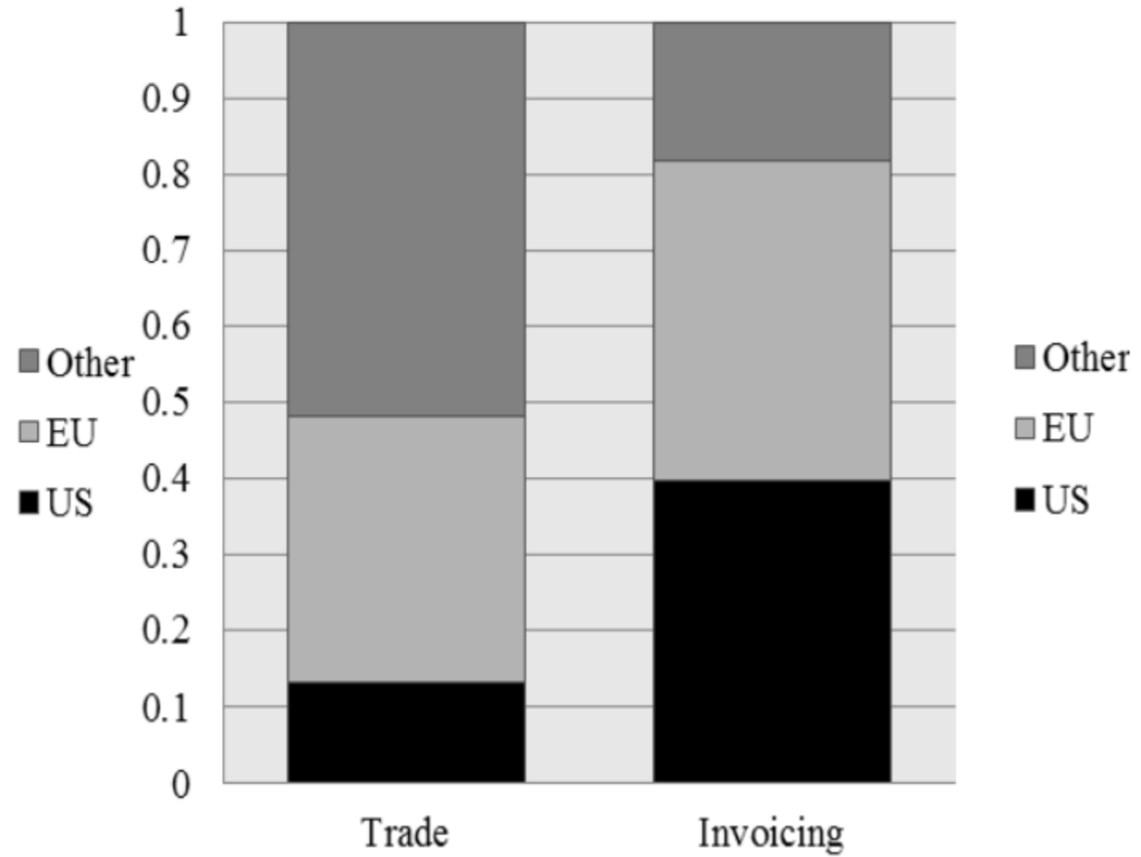
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Imports: Trade vs Currency Share



Exports: Trade vs Currency Share



Source: Gita Gopinath (2016) Jackson Hole

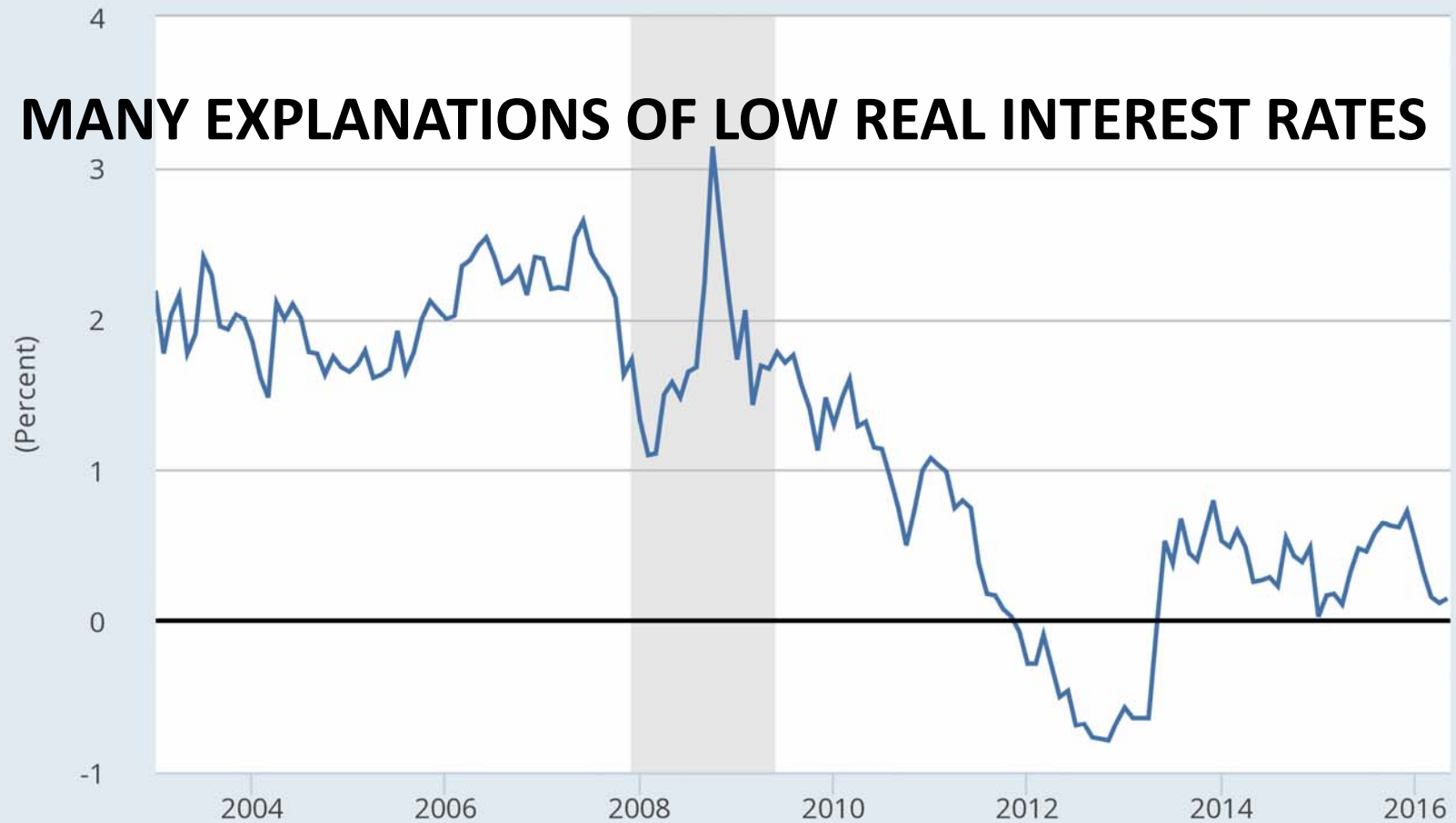
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Low Global Real Interest Rates, the Zero Bound and Scarcity of Safe Assets

— 10-Year Treasury Inflation-Indexed Security, Constant Maturity

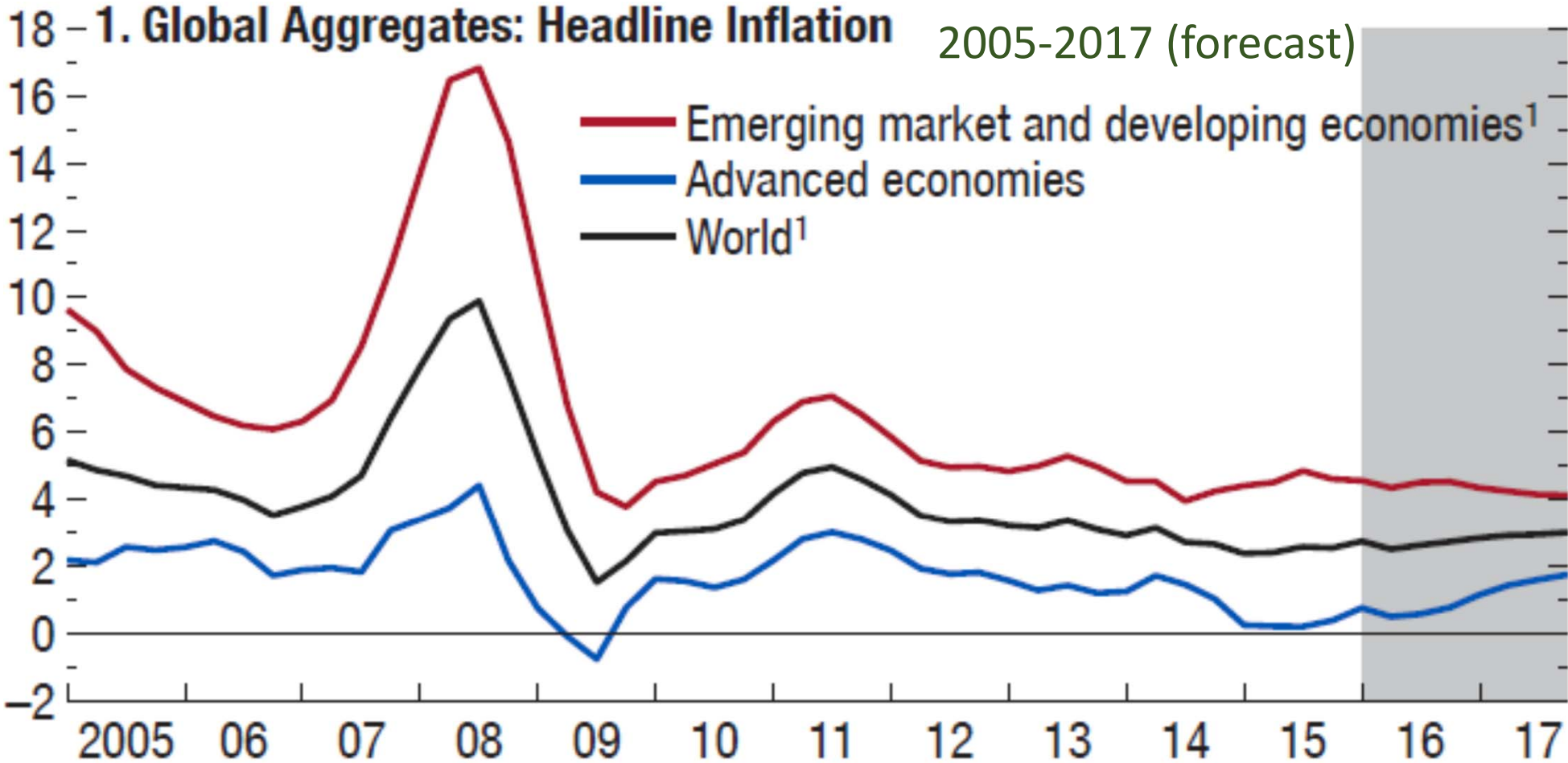
MANY EXPLANATIONS OF LOW REAL INTEREST RATES



Source: Board of Governors of the Federal Reserve System (US)
research.stlouisfed.org

myf.red/g/4tdx

ALSO: INFLATION HAS BECOME REMARKABLY STICKY

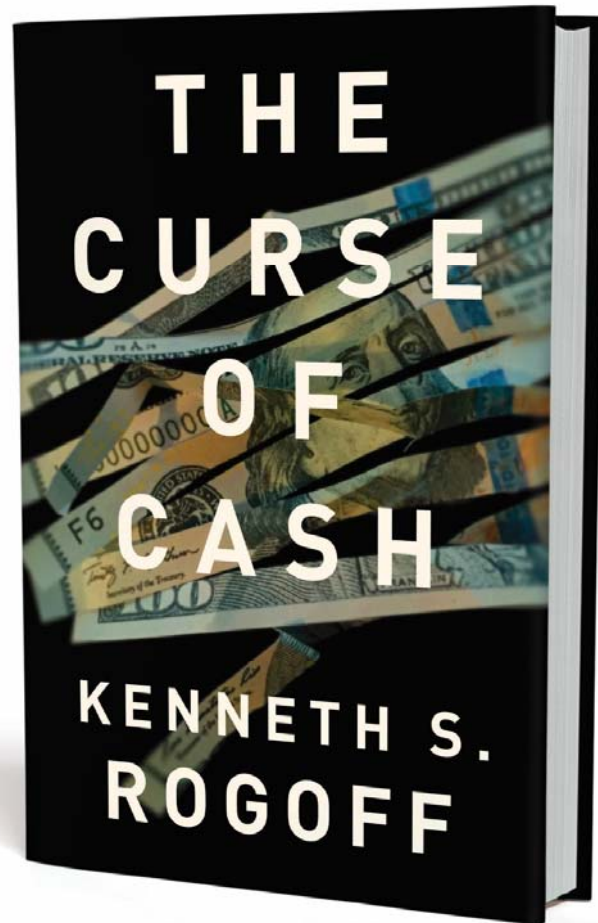


Zero bound has become a rationale for many dubious policy prescriptions

Also can imply a genuine shortage of “safe” rich country bonds

Why not clear the air by phasing out most paper currency? (This is a theme of Rogoff (1998), (2014) and (2016) forthcoming)

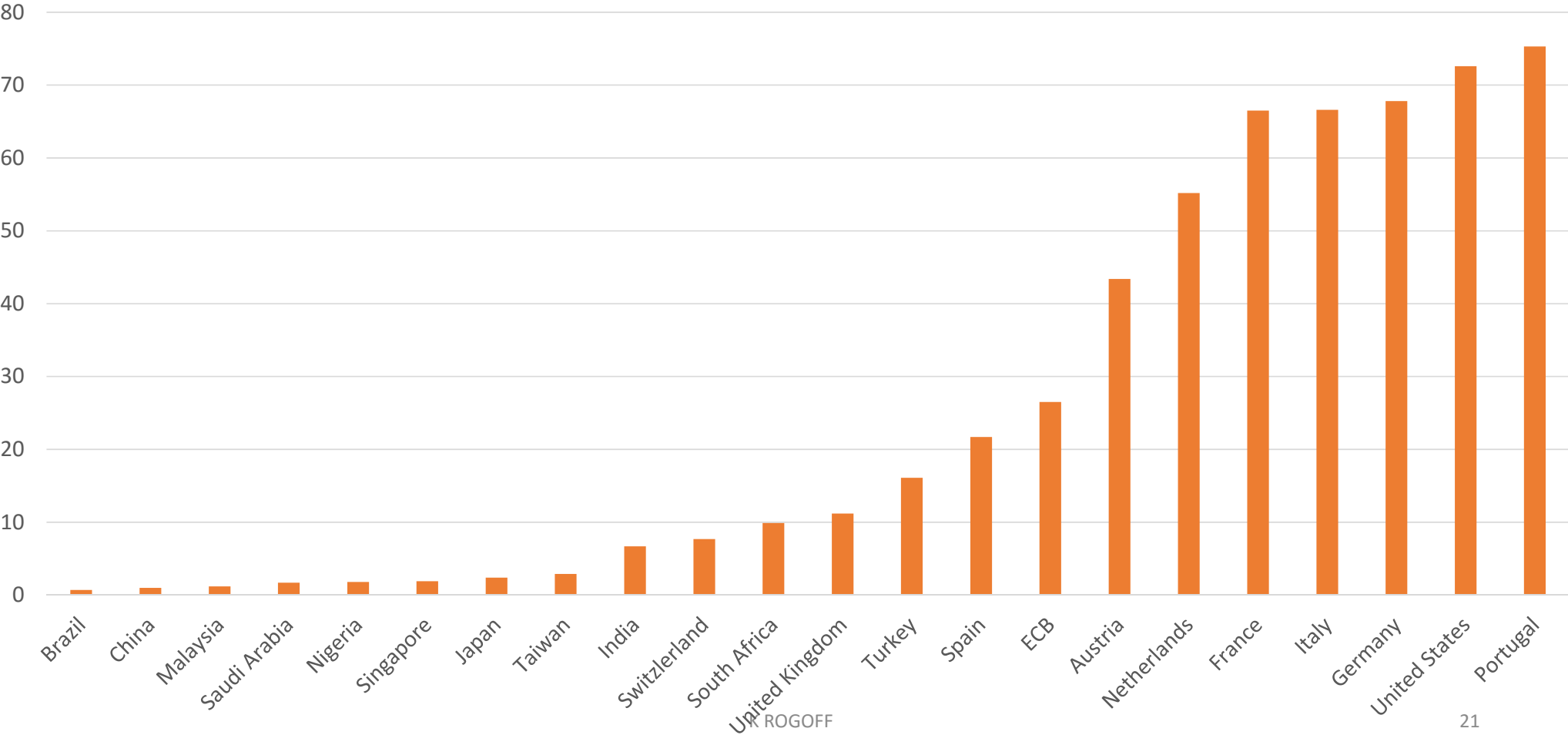
There are straightforward solutions to the zero bound



Should Emerging Markets have Gone Along with Advanced Country Initiatives to Completely Demonetize Gold?

- The case of raising share of gold in emerging market central bank reserves.
 - There is no Triffin problem for gold in a flexible exchange rate system (price simply rises) (Rogoff, Project Syndicate, May 2016)

Gold as Percent of Total Official Reserves



BY ROGOFF

END