Discussion of *Debt Supercycle versus Secular Stagnation* by Ken Rogoff

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Who’s Afraid of Secular Stagnation?

Everyone!

- Big Q: is appropriate real interest rate r (required to generate enough investment for full employment) feasible?
  - If not, low interest rates and growth endure
- Key Stylized Fact: r, growth low for much of 21st century
- The issue: secular stagnation <u>persistent</u>
  - Debt resolution – alternative hypothesis – <u>transient</u>

- This really matters!
  - For both America and RoW

- So … which hypothesis seems right?

This is about America

- Only <u>frontier</u> economy relevant for secular stagnation
  - Poorer countries always have catch-up growth
- America also disproportionately important
  - Import demand
  - Reserve currency, anchor for (many) fixers
  - Payments system/financial institutions
  - Source of T-bonds/safe assets
  - Non-economic phenomena …
- So evidence from other countries not obviously relevant
  - Ex: Japanese gross & net debt high, i and r low … but not at frontier

Debt Supercycle: Plausible Explanation

Why *persistently* low r, growth?

- Debt problems intrinsically slow to resolve
- Banking systems take time to recapitalize
- Lingering wealth effects in consumers, institutions
- Negative effects on investment
- Financial policy more restrictive

So the rationalization looking backwards is reasonable

Other Characteristics of Debt Supercycle

- Slow recovery from 2007-9 GFC, especially in unemployment
- Magnitude of housing boom, bust
- Leverage in bubble
- Behavior of equity prices before and after crisis
- Explosion of debt

All these enhance scientific plausibility of basic hypothesis

- Also mostly consistent with secular stagnation features

Future Looks Bleak

Fundamental Reasons Fiscal Pressures will keep Rates High

- Existing High Debt Levels
- Demographic pressures, unfunded health/pension liabilities
- Deglobalization
- Green Transition, Climate Change
- Increased Defense Spending, geopolitical risks
- Inequality, populism

Conclude: fiscal burdens burdensome, risky

Tangent: Singapore does *not* need a homily about the perils of debt

- Singapore has high gross government debt (~160% GDP)
- But Singapore also
  - Typically runs balanced budget/surplus (50-yr average ~7.6% GDP)
  - Issues debt to facilitate market development, finance infrastructure
  - No **net** debt
  - Not the biggest net creditor (compared to GDP) … [Norway!]
    - But bigger than Switzerland, Saudi Arabia, Germany, Japan, …
  - Hugely risk-averse
- Preaching to the converted

Back to Secular Stagnation

No denying some key long-run features

- Demographic transition (fertility, female participation)
- Integration of China, emerging economies
- (Bernanke’s savings glut)

All slow-moving …

Debt Supercycle and Secular Stagnation Aren’t Equally Plausible

- Timing is on Ken’s side: i and r fall because of GFC, rise with inflation; secular stagnation slow-moving
- Much of paper’s motivation seems contrived
- Is this really an active debate?

Who’s on the Other Side?

- Not Summers anymore (April 2024)
  - “If I had to guess, secular stagnation was a phase, and just like the people who thought it would return after World War II turned out to be wrong, those who think it will return after the pandemic turn out to be wrong.”

Blanchard: Secular Stagnation *Not* Over

- Preface to *Fiscal Policy under Low Interest Rates:*

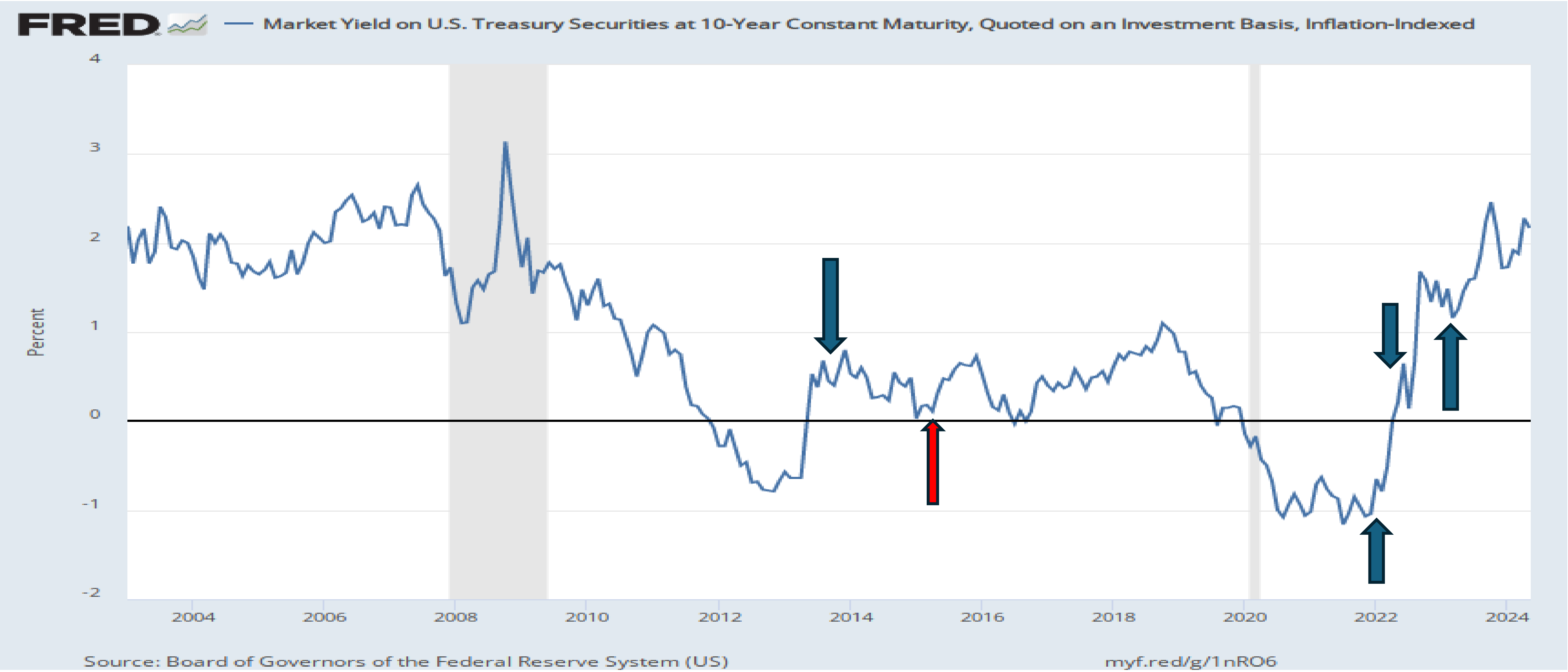
  “One final remark added as I read the galleys in June 2022. I finished writing the book at the end of 2021. Since then, inflation has increased, and central banks are increasing nominal rates. Real rates are still extremely low, but they will rise further. As the readers will see, I had largely anticipated these evolutions, and explained why I thought they might lead to a temporary bump in rates but with a return to low real rates after that. I stand by these conclusions.”

- *Reiterated in blog post, January 2023*
  - Blanchard assesses (r-g) to be between -0.7% and -1.3% for US

Unfortunate Timing!

- CBO (and others): 10-year real US GDP growth forecast ~2.2%

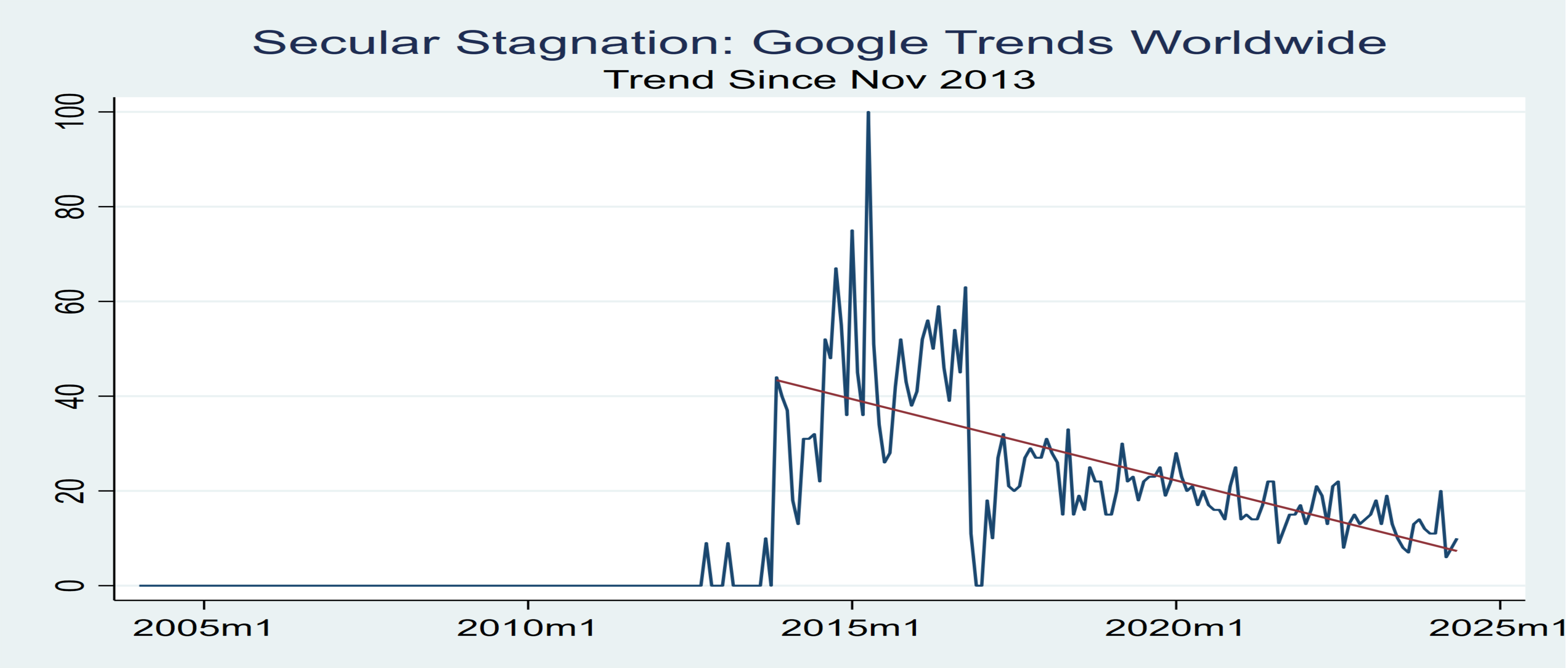
10-Year TIPS: r~2.2



Source: Board of Governors of the Federal Reserve System (US)

myf.red/g/1nRO6

More Generally: Waning Interest



Value Added of this Paper

Easy to say what it isn’t:

- Not new theory (from the father of new open economy macroeconomics)
- Not new data (from creator of long historical series on prices, exchange rates, interest rates, debt statistics, …)
- Not methodology
- Not empirical results (only 5 graphs!)

Not really a horse-race between two competing hypotheses

This is to misunderstand

- This paper is more like a mashup of *Ken’s Greatest Hits, vol 2*
  - Mixed in with dash of self-congratulation
  - To flesh out argument, paper sprawls

Includes:

  - Use of long historical data on debt (*This Time is Different* w/ Reinhart)
  - Use of long historical interest rates data (w/ Rossi, Schemlzing)
  - Physical cash must go, to allow large negative rates (*Curse of Cash*)
  - Chinese real estate and banking fragility (w/ Yang)
  - AI optimism

- Key: many old self-citations (“I told you so”)

Rogoff: the perfect person to write this

- No one else has the span of relevant definitive original research
- A (grand-)master at work
  - Hard to argue with author who shamelessly plants a throwaway citation to a discussant (Rose, 1988)

But it’s not all a victory lap

Facts moving consistent with Rogoff

… but title moving other way

- 2015: “Debt Supercycle, Not Secular Stagnation”
- 2024: “Debt Supercycle versus Secular Stagnation”
- 2033: “Debt Supercycle and Secular Stagnation”?

Peripheral Disagreement: Will AI Rescue Growth?

- I asked Chat-GPT4
  - “Produce one PowerPoint slide, explaining why artificial intelligence will raise GDP growth.”

Certainly! Here's a concise explanation for your PowerPoint slide

1. **Increased Productivity:**
    - AI automates repetitive tasks, allowing workers to focus on higher-value activities.
    - Enhanced efficiency leads to increased productivity, which directly impacts GDP growth.
2. **Innovation and New Markets:**
    - AI enables breakthroughs in various sectors (e.g., healthcare, finance, manufacturing).
    - New AI-driven products and services create additional revenue streams, contributing to GDP.
3. **Cost Reduction:**
    - AI reduces operational costs by optimizing processes and minimizing waste.
    - Lower costs for businesses translate to higher profits and economic growth.
4. **Labor Market Impact:**
    - While AI may displace some jobs, it also creates new roles (e.g., AI developers, data scientists).
    - A balanced transition can lead to a more skilled workforce and sustained GDP growth.
5. **Global Economic Impact:**
    - McKinsey estimates that AI could add around $13 trillion to global economic activity by 2030, resulting in 16% higher cumulative GDP compared to today [1].
    - Goldman Sachs predicts a 7% increase in global GDP due to AI, lifting productivity growth over a decade [2].

Remember to customize the slide with relevant visuals and data sources. Feel free to expand on these points to create a compelling presentation!

Less is More

- AI optimism an inappropriate distraction here
  - Argument is about (r-g) … currently 0, may well rise
  - Ken gives reasons why r will remain high/rise
- Why focus on more dubious impact of AI on g?
  - Only undermines argument (a little)
- To pursue, need to quantify magnitudes of r, g effects

In Closing

- A combination of different strands of the literature; all point to the debt supercycle explanation over secular stagnation
- Summation of (part of) a long influential research program, connected by Rogoff’s considerable span of research
- Ken wins most of his arguments … including this one