

Institute for
New Economic Thinking

A Decade of Stagnation: Why?

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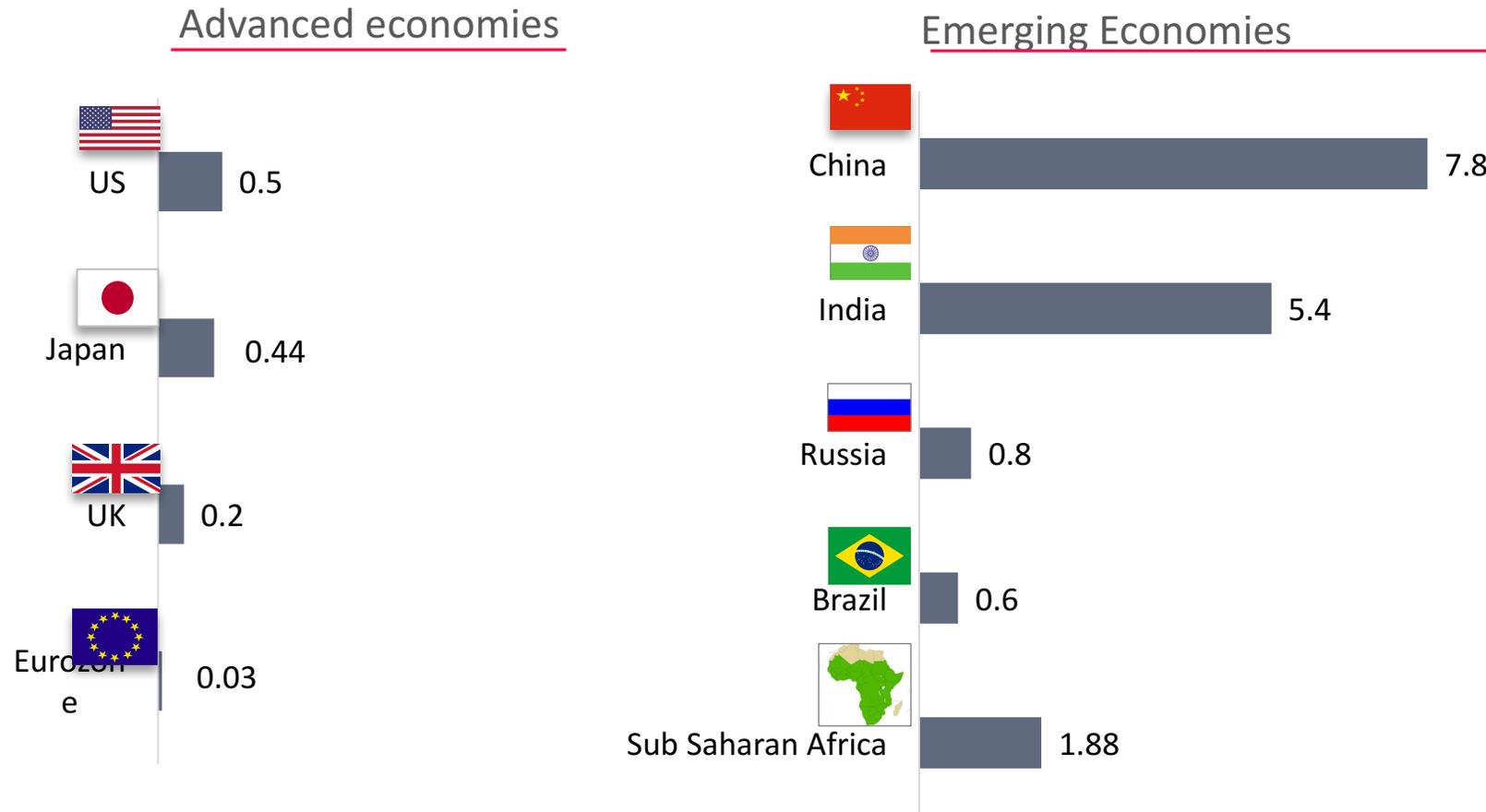
INET Plenary Conference
Edinburgh
21st October 2017

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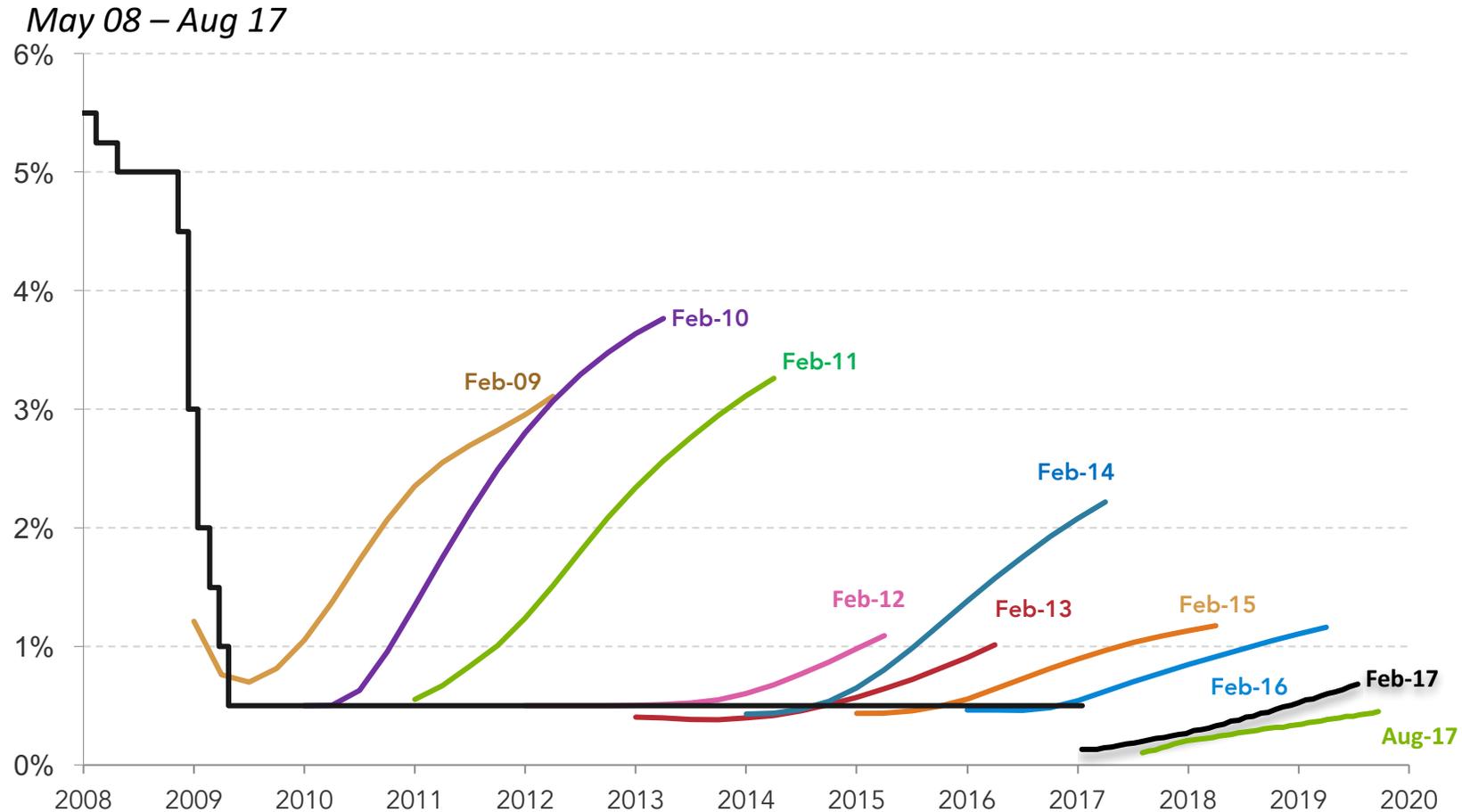
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GDP per capita growth 2007-16

% per annum

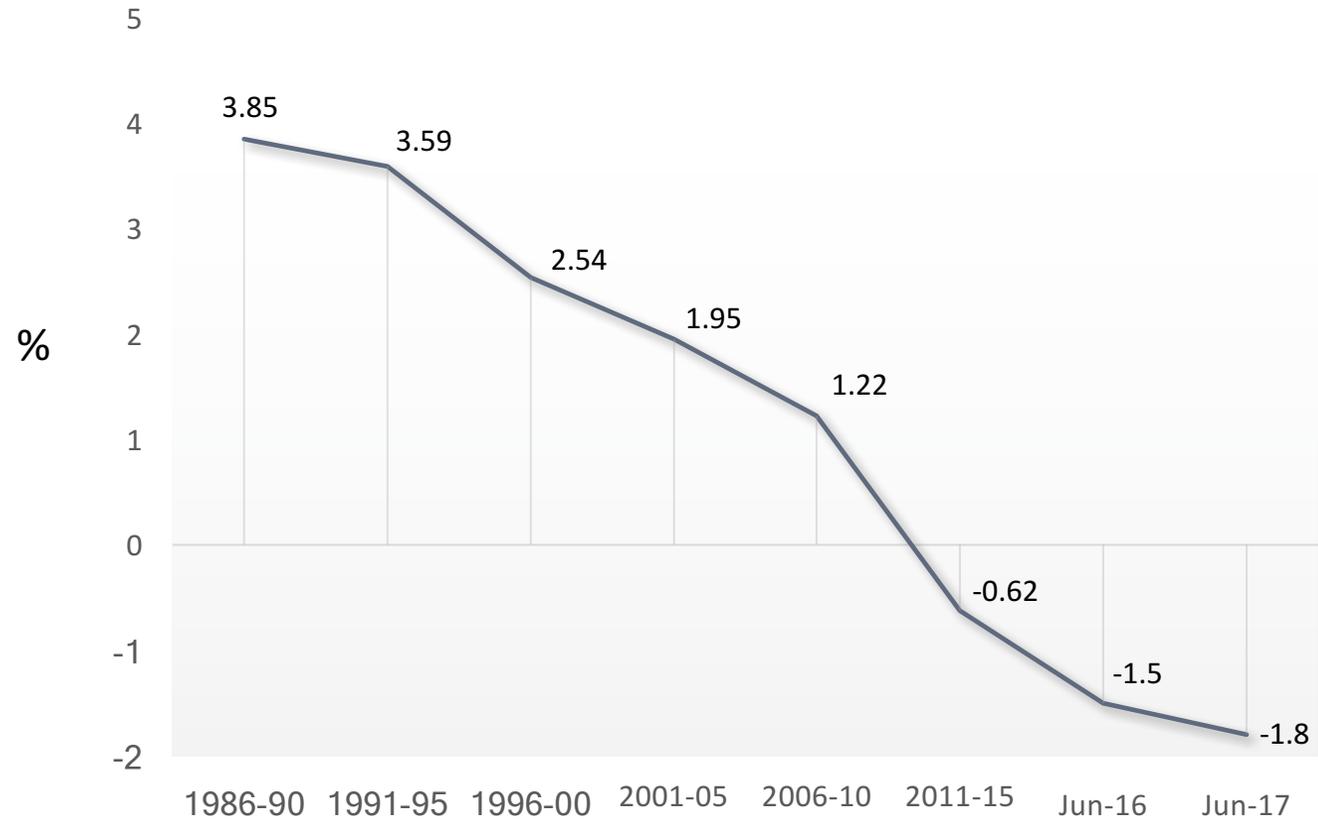


Successive market forecasts of BoFE interest rates



Source: Resolution Foundation and Bank of England Inflation Report, August 2016

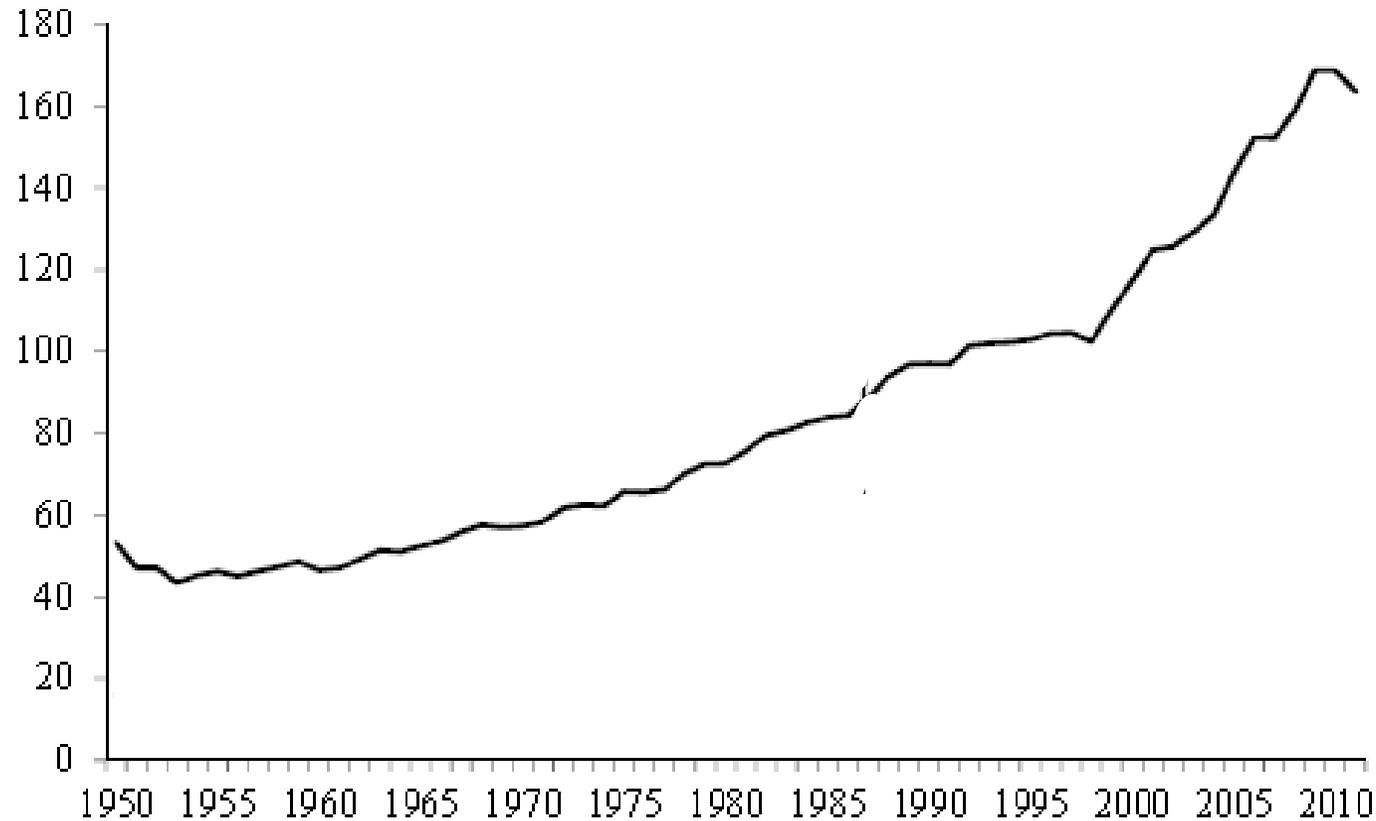
Sterling 10 year index-linked gilt: Yield to maturity 1985 – 2017



Source: Bank of England Statistics

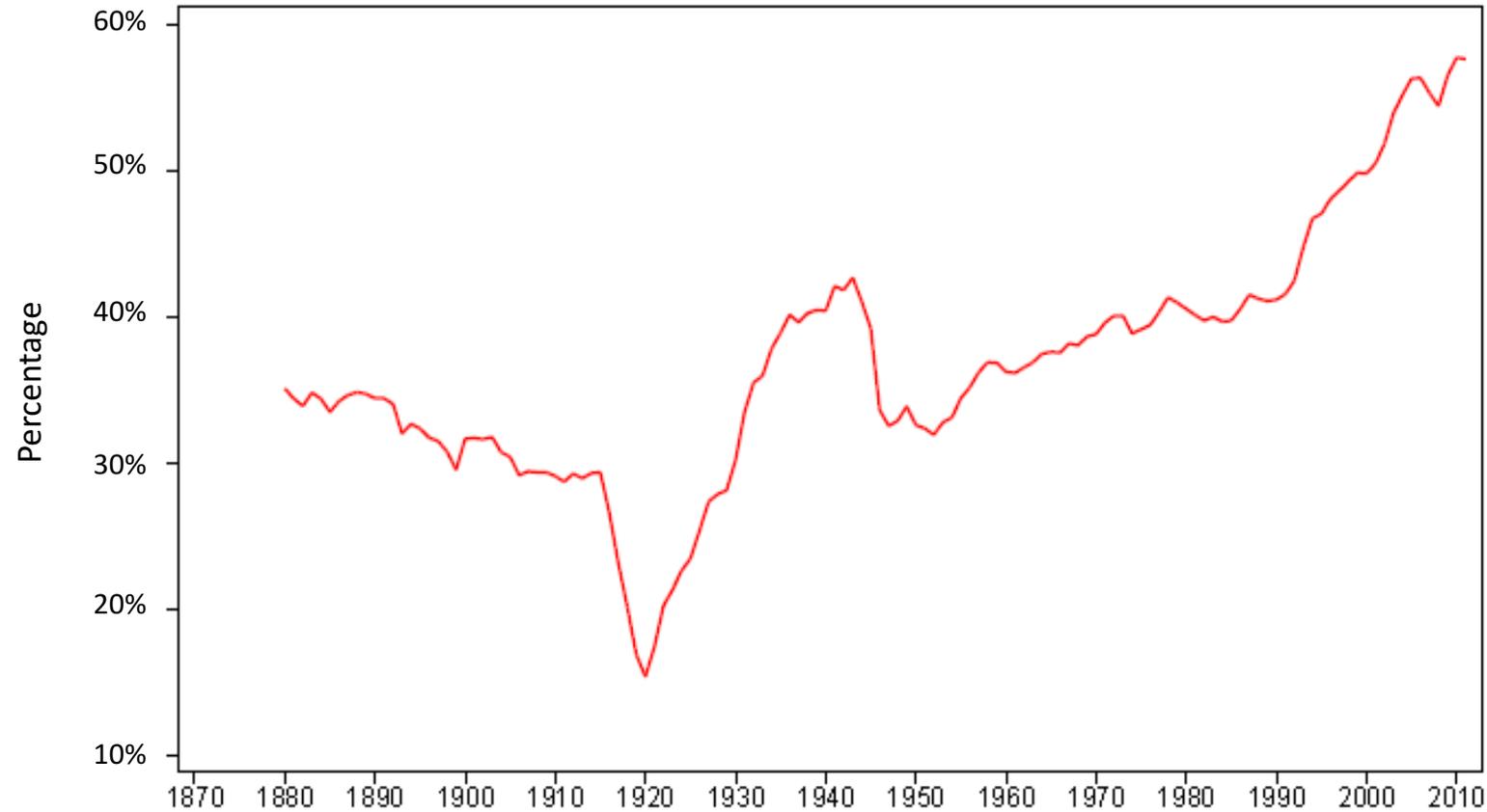
- Debt overhang
- Secular stagnation

Private domestic credit as a % of GDP: Advanced economies 1950 – 2011



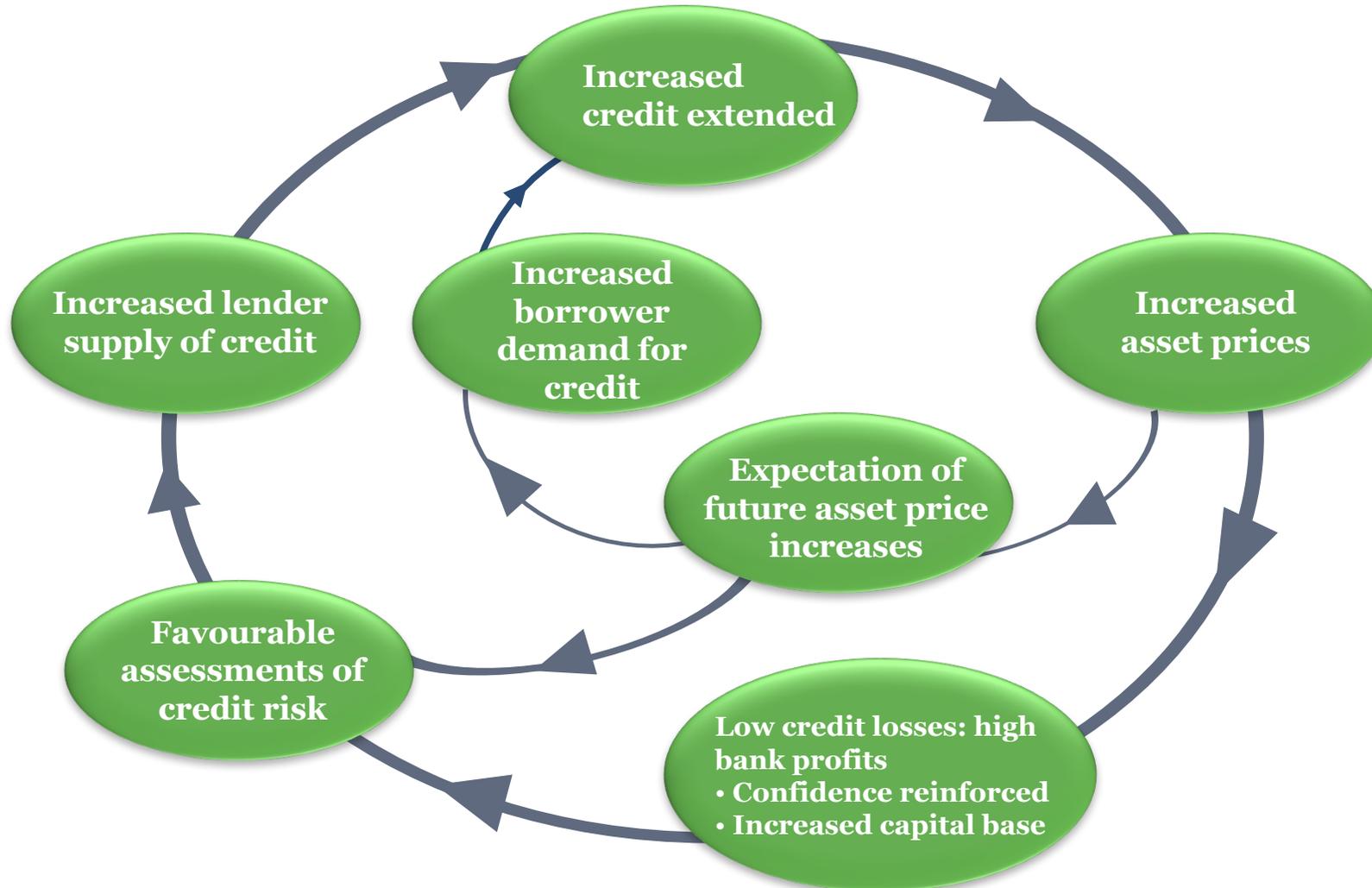
Source: *Financial and Sovereign Debt Crises: Some Lessons Learned and Those Forgotten*, C. Reinhart & K. Rogoff, 2013

Share of real estate lending in total bank lending

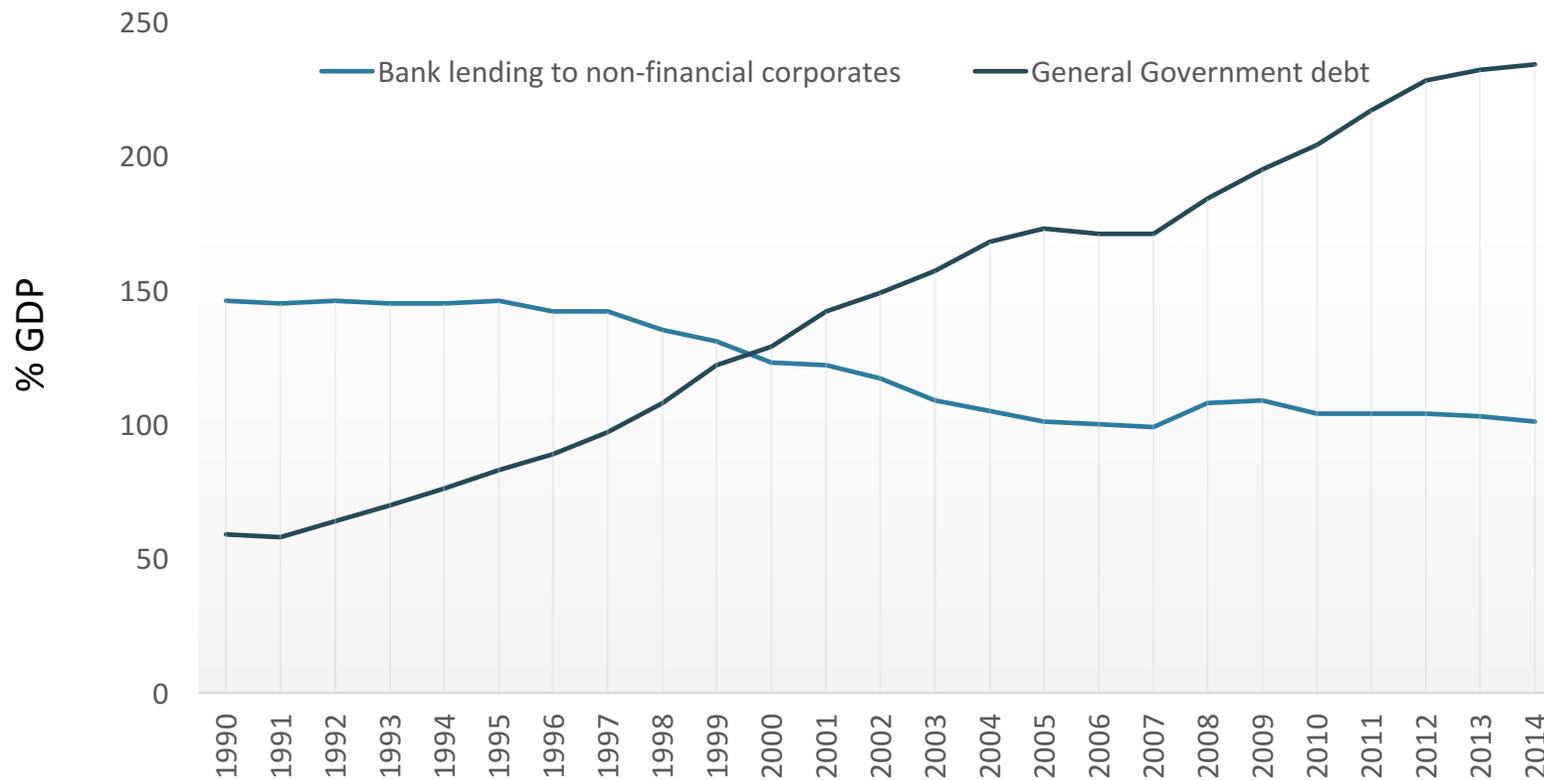


Source: "The Great Mortgaging", Oscar Jordá, Moritz Schularick and Alan Taylor, 2014)

Credit and asset price cycles: upswing



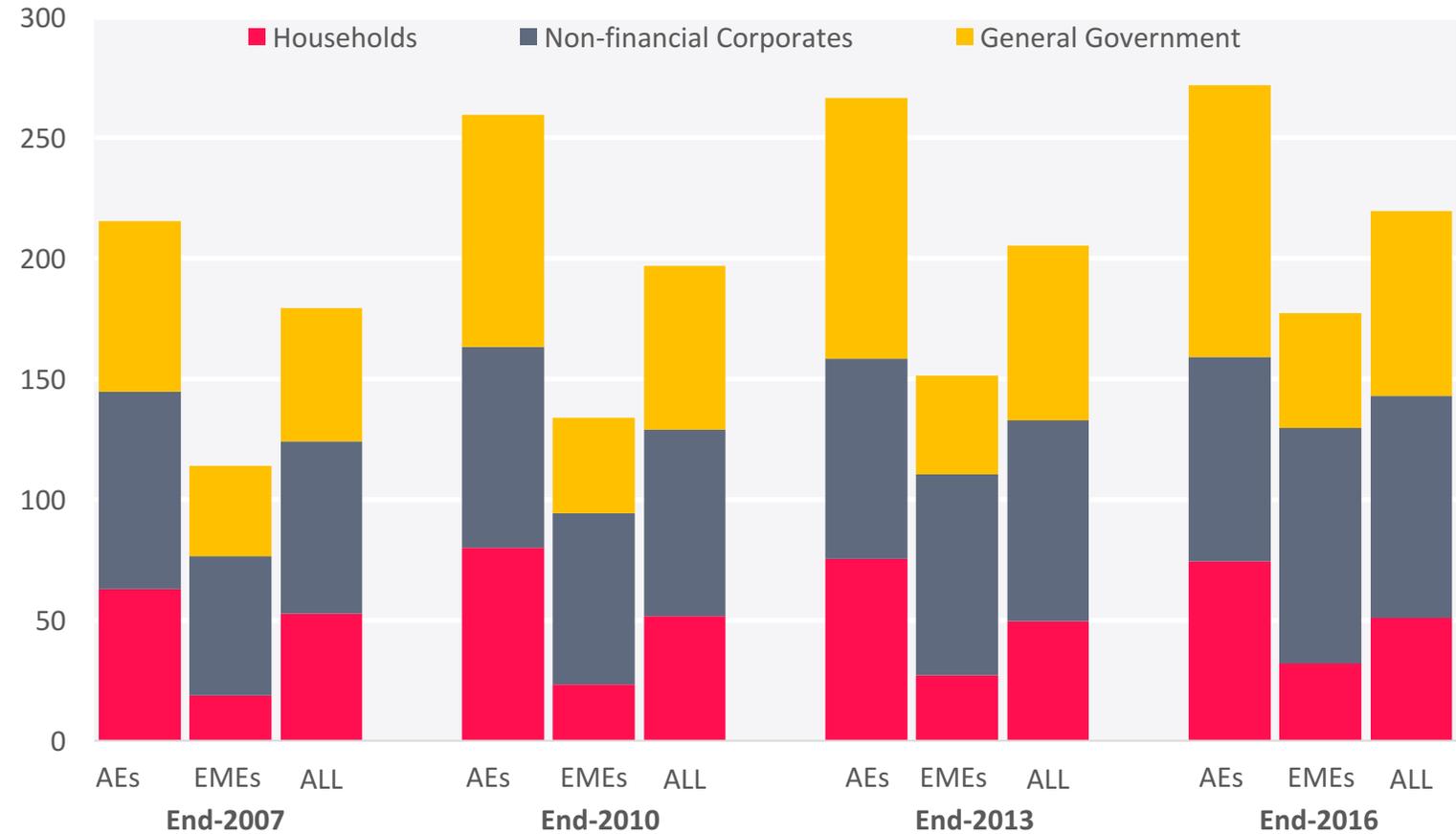
Japanese government and corporate debt: 1990 – 2010



Source: BoJ Flow of Funds Accounts, IMF WEO database (April 2011), FSA calculations

Global debt continues to rise

Debt as % of GDP

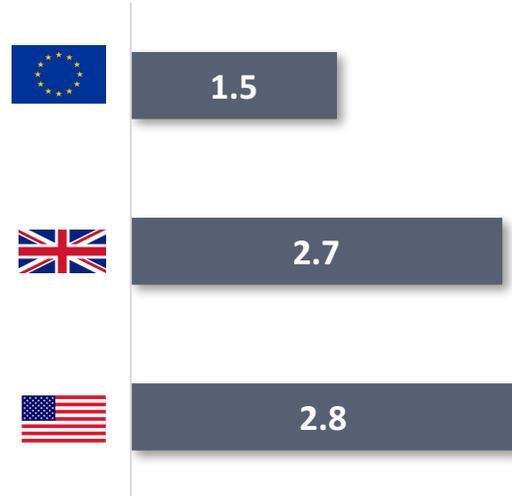


Source: Bank for International Settlements 87th Annual Report, 2017

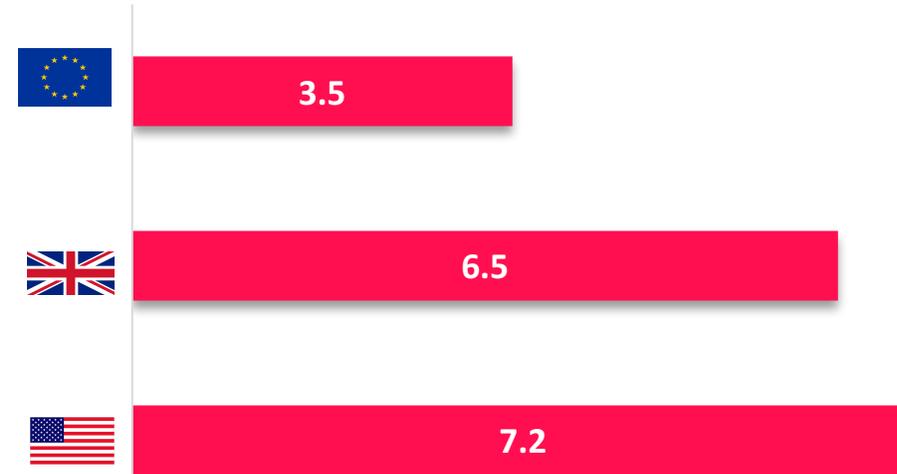
Nominal GDP growth and fiscal balance

2007 – 2016

Growth of nominal
GDP % p.a.



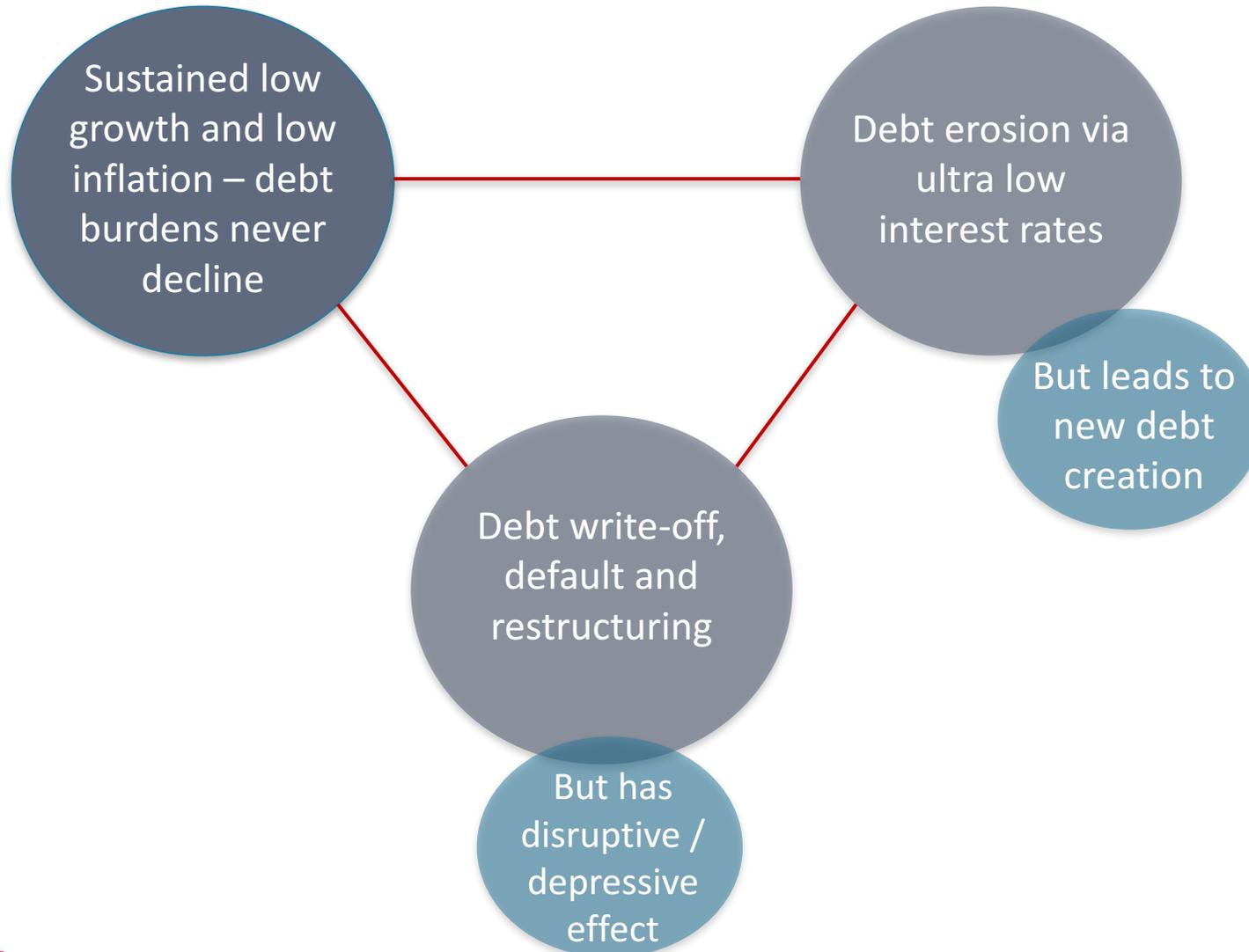
Average fiscal deficit as %
of GDP 2008-2016*



(*) General government Balance, Table 1, IMF Fiscal Monitor, April 2017

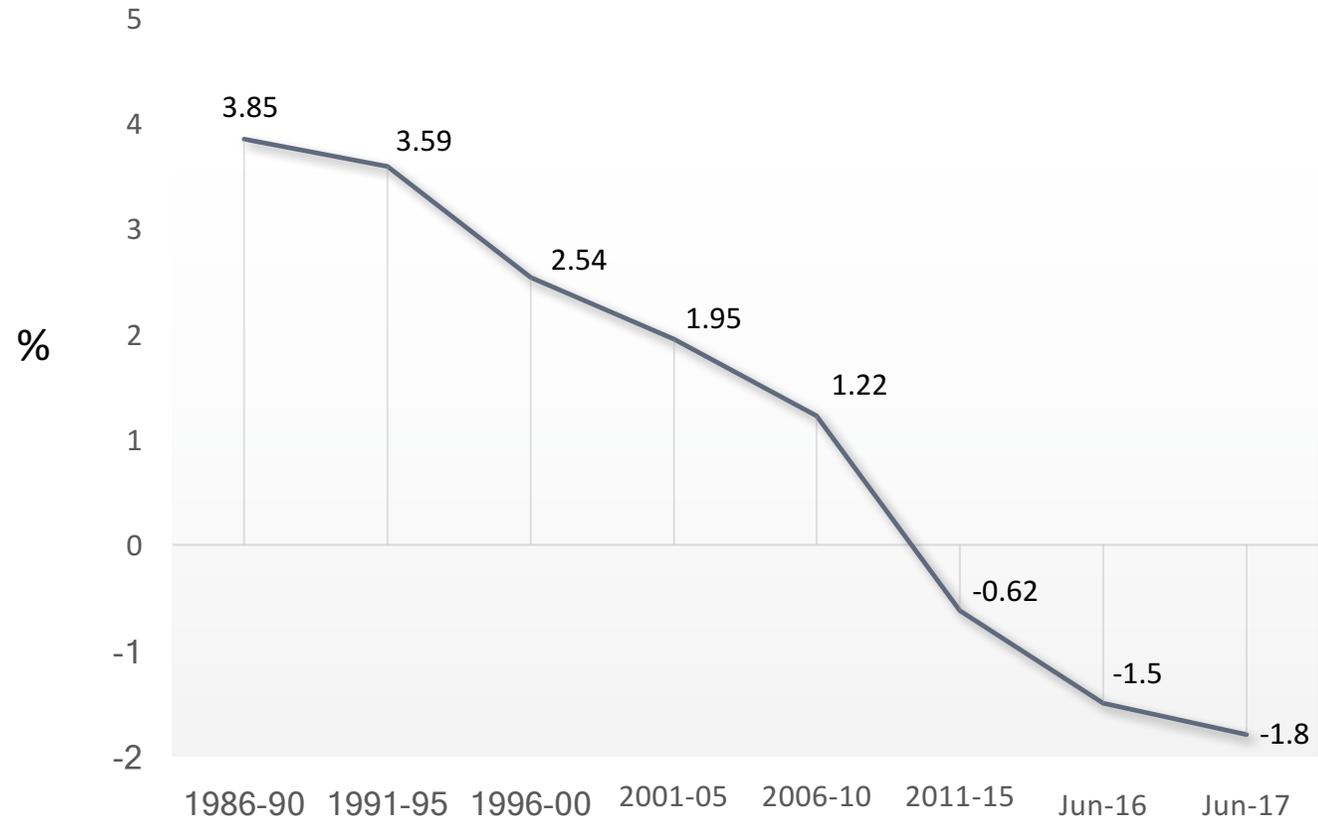
Source: IMF World Economic Database, April 2017; IMF Fiscal Monitor, 2017

Debt overhang : the unavoidable choice?



- Debt overhang
- Secular stagnation

Sterling 10 year index-linked gilt: Yield to maturity 1985 – 2017



Source: Bank of England Statistics

Why did real rates fall so much even before the crisis?

Ex-ante savings

Global imbalances?

Inequality?

Demographic effects?

Ex-ante investment

Reduced investment needs?

- In plant and machinery?

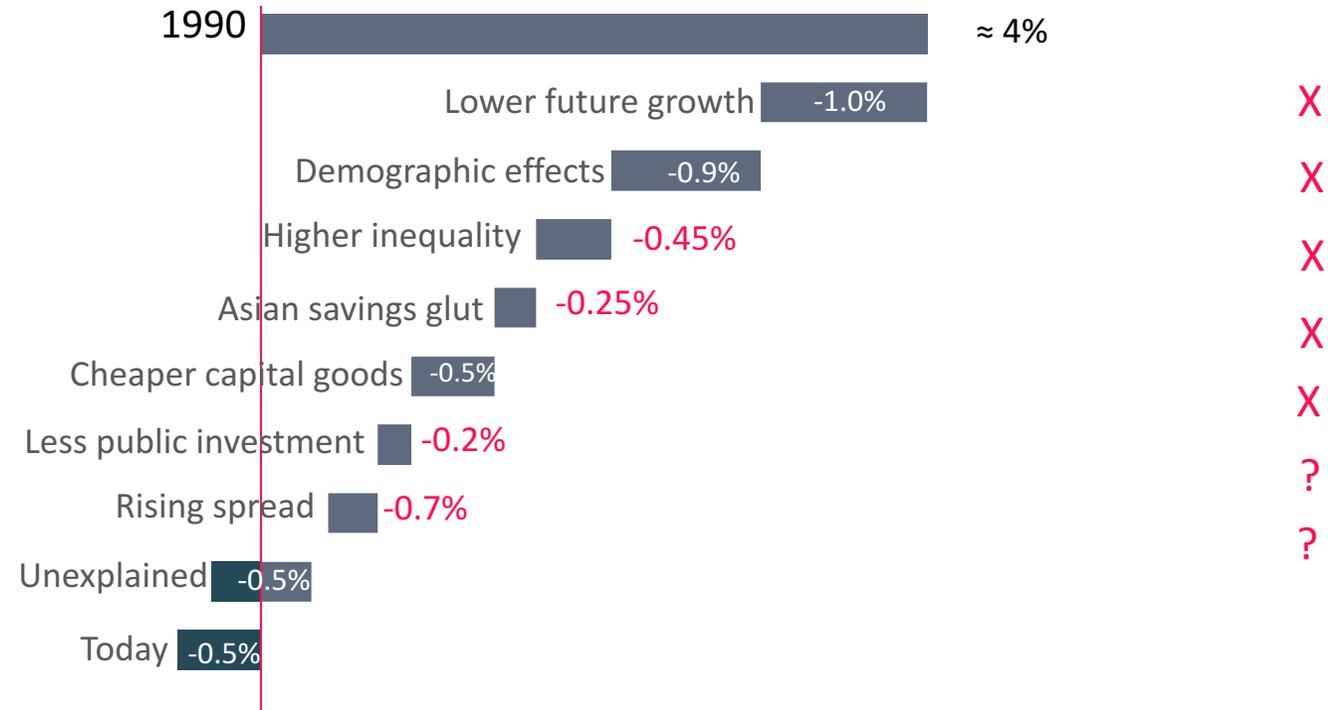
- In advanced economy property and infrastructure?



Drivers of a falling neutral real rate?

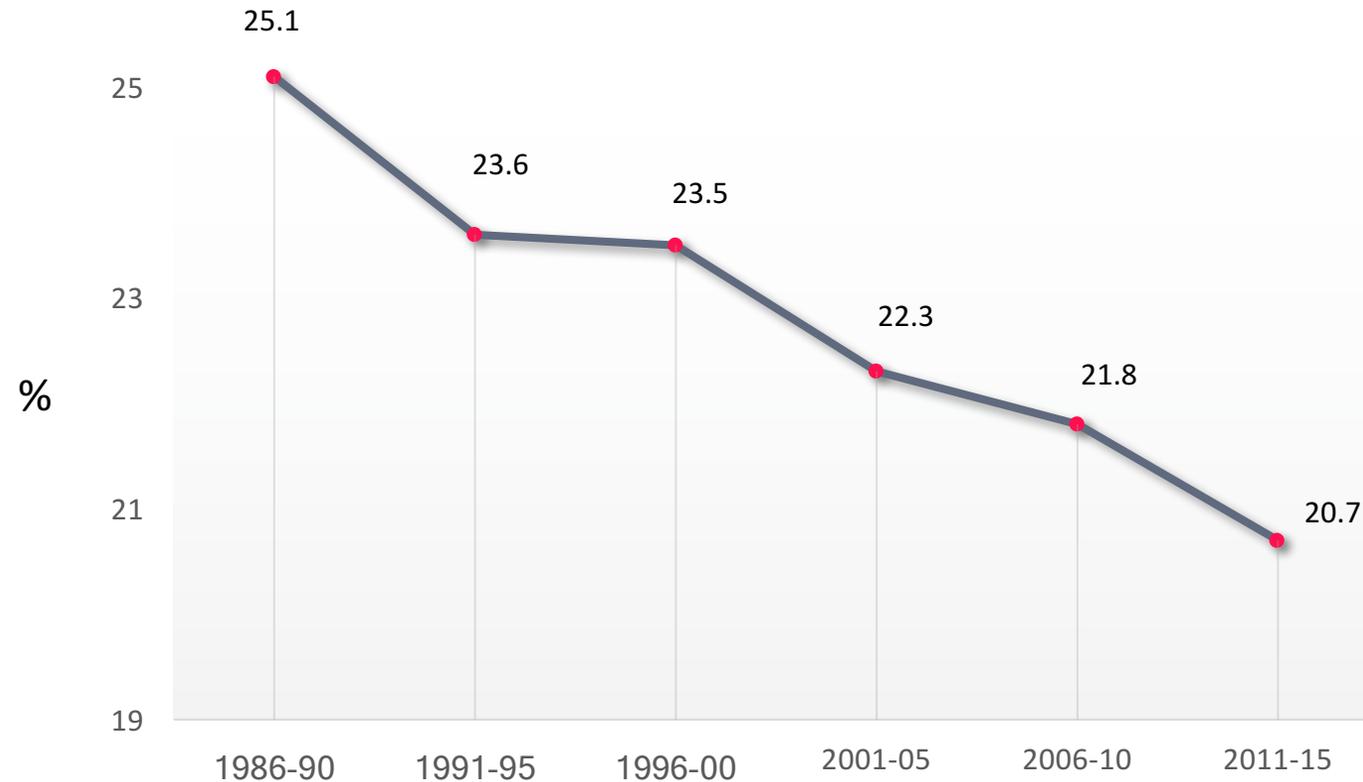
Developed economies

Likely reversal



Source: Lukasz Rachel and Thomas Smith, *Secular Drivers of the Global Real Interest Rate*, Bank of England Working Paper No. 571, December 2015

Advanced economy investment as % of GDP: 1986 – 2015 five-year averages



Source: IMF World Economic Outlook Database, April 2016

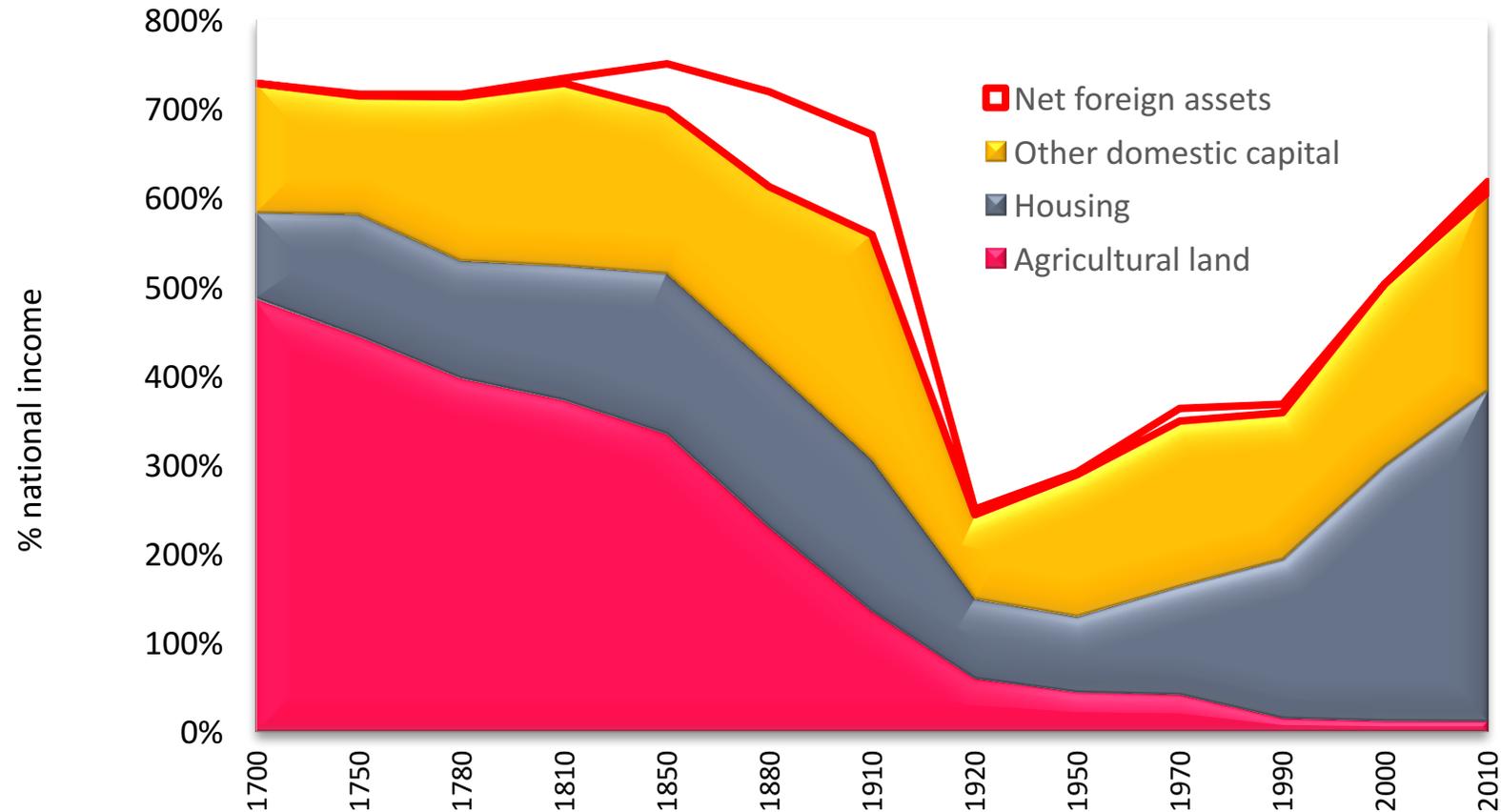
Wealth and employment in ICT businesses

	Market Value (\$bn)	Employees (000s)
 Microsoft	447 (Sep 2016)	~ 114,000 (Sep 2010)
 Google	555	~ 67,000
 Facebook	374	~ 14,500
 Instagram	1*	~ 12
 WhatsApp	19* * Paid by Facebook	55

We have over 1 million users per engineer and this number has been steadily increasing

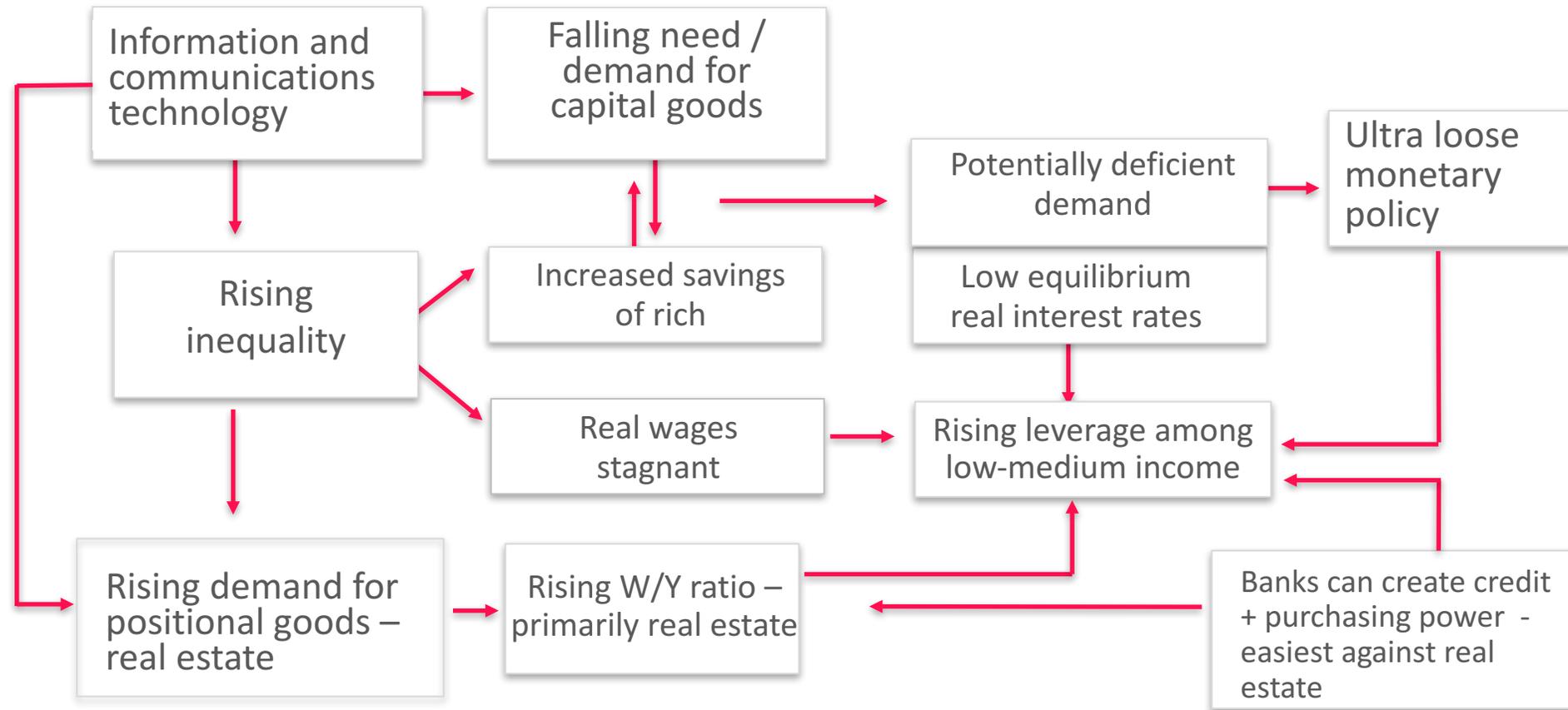
With only 32 engineers, one WhatsApp developer supports 14 million active users

Capital in France 1700 – 2010



Source: *Capital in the Twenty First Century*, T. Piketty (2013)

Dynamics in the modern economy



Fundamental drivers of secular stagnation only offset by rising leverage
 —→ Crisis and debt overhang
 —→ Exacerbates secular stagnation problem