Macro Roundup Article

Headline: Things Are Only Getting Harder For The Fed

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Tweet: .@krogoff argues that we can't count on the low borrowing rates associated with secular stagnation to reassert themselves. Given inflation near 5% and extreme stress in the banking system, Rogoff thinks the Fed decision on Mar 21-22 is especially tough.

Summary: Ultra-low borrowing rates are not something that can be counted on this time around. If one looks at long-term historical patterns in real interest rates major shocks — for example, the big drop after the 2008 financial crisis — tend to fade over time. There are also structural reasons: for one thing, global debt (public and private) exploded after 2008, partly as an endogenous response to the low rates, partly as a necessary response to the pandemic. Other factors that are pushing up long-term real rates include the massive costs of the green transition and the coming increase in defence expenditure around the world. The rise of populism will presumably help alleviate inequality, but higher taxes will lower trend growth even as higher spending adds to upwards pressure on rates. What this means is that even after inflation abates, central banks may need to keep the general level of interest rates higher over the next decade than they did in the last one, just to keep inflation stable.

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