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Macro Roundup Artcile

Headline: Natural and Neutral Real Interest Rates: Past and Future

Article Link: https://www.nber.org/papers/w31949

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Tweet: Maurice Obstfeld argues that the drivers of declining interest rates since 1980, such as low productivity growth and high safe asset demand relative to supply, have not been offset enough to drive a "big and durable rise in global real interest rates."

Summary: The main underlying factors that have pushed real interest rates down since the 1980s and 1990s – notably demographic shifts, lower productivity growth, corporate market power, and safe asset demand relative to supply – do not appear poised to reverse strongly enough to drive a big and durable rise in global real interest rates over the coming years. Low equilibrium interest rates may well continue periodically to bedevil monetary policy and financial stability. Figure 23 shows global rates of growth since 1980 as calculated by the IMF, with projections after 2022. It is hard to imagine real interest rates recovering substantially without a surge in global investment that would likely be associated with higher productivity and output growth. The forecasts in Figure 23 suggest that this is not in the cards in the near term. New technologies, for example, those based on artificial intelligence, could lead private investment to rise temporarily or longer term, and even increase the secular growth rate, but those predictions are contested and speculative at this point. Related: If Markets Are Right About Long Real Rates, Public Debt Ratios Will Increase For Some Time. We Must Make Sure That They Do Not Explode and The Future Of r* and What Have We Learned About the Neutral Rate?

Primary Topic: Business Cycle

Topics: Academic paper, Business Cycle, Database, Financial Markets, Fiscal Deficits, Fiscal Policy, GDP

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