Macro Roundup Article

Headline: Monetary Policy Is Not Solely to Blame for This Banking Crisis

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Tweet: .@martinwolf_ notes that, while extremely low interest rates have had some unfortunate consequences, it is not correct to place the blame entirely on central banks; demographics, the rise of China, and a global savings glut were major factors.

Summary: Central banks alone, however demented they may have been, could not deliver a decline of more than eight percentage points in real interest rates over three decades. If this huge fall in real interest rates were incompatible with the needs of the economy, one would surely have seen surging inflation. So, what was going on? The big background changes were financial liberalisation, globalisation and the entry of China into the world economy. The latter two not only lowered inflation. They also introduced a country with colossal surplus savings into the world economy. In addition, rising inequality within high-income countries, combined with ageing populations, created huge surplus savings in some of them, too, notably Germany.

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