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International Macroeconomics in the Wake of the Global Financial Crisis

Springer

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Foreword

A decade after the Lehman Brothers collapse set off the most severe global downturn since the Great Depression, we are still coming to grips with the most recent chapter in the world's economic history. Financial factors, of course, have played a leading role in causing the crisis, in generating its effects, and in the policy response–leading to ongoing efforts to synthesize more completely macroeconomics and finance in economists' intellectual paradigms. But even a more conventional focus on macroeconomic variables reveals puzzles aplenty.

And indeed, the years after 2008 have been a distinctive period, following the so-called "Great Moderation" that some economists once believed to have taken firm hold by the mid-2000s. Broad-based global growth has been elusive until very recently, inflation and wage pressures remain muted in much of the world, interest rates remain generally low, and for many countries, medium-term income prospects seem dimmer than in the past. This conjecture has even led some economists to resurrect the specter of Alvin Hansen's secular stagnation. To what extent can the crisis itself explain the singular features of the post-crisis experience? Which of those features continue—while perhaps reinforcing—trends that began before the crisis? And did any of those pre-existing trends contribute to setting the stage for the crisis?

Why do I call the recent decade "distinctive"? The differences from the pre-crisis period are manifold:

- Growth in total factor productivity has been low, and together with low investment, the slow pace has led to lagging in labor productivity. International Monetary Fund projections project lower per capita income growth in the future for much of the world, notably advanced economies, fuel exporters, and—due to its rebalancing process—China. In retrospect, however, productivity growth likely began its decline in the 2000s, partially masked by the global credit boom, while China's torrid growth in the decade, which helped sustain global commodity prices, was not permanently sustainable.

- Real global interest rates are low, and appear likely to remain low for long. Here again the phenomenon is not new, as real rates began their decline around the mid-1980s, receiving a further push downward in the 2000s as some emerging markets ran bigger current account surpluses and accumulated international reserves. But the low levels rates have reached recently are exceptional—several researchers estimate negative values for the "natural" real rates of interest that equate full-employment demand and supply. It is unclear to what degree low real rates are a new "normal," related to population aging and the low productivity growth just mentioned, or a result of elevated debts after the crisis.
- Consistent with low natural real rates of interest, advanced economies have spent a surprisingly long time at or near the effective lower bound on nominal policy interest rates, resorting to unconventional monetary policies to try to lower longer-term bond yields and support anchored inflation expectations. But inflation has been generally below target levels nonetheless, and nominal wage growth has been slow across advanced economies, notwithstanding the general closure of estimated negative output gaps over the decade.
- The slow return of inflation rates to target, coupled with financial actors' reach for yield at low interest rates, has made some central bankers less comfortable with the single-minded pursuit of price-stability mandates. If globalization has made Phillips curves flatter, as some claim, might financial instability set in before inflation targets are reached, setting off a new crisis when monetary and fiscal policy space are both tightly constrained? Or can macroprudential policy somehow square the circle?
- Slow wage growth has taken place against a background, at least in advanced economies, of an increasing inequality trend. Again, this trend began long before the crisis, and reflects technological change, globalization, and a likely downward drift in the relative bargaining power of labor (through, for example, lower unionization density in many countries, less labor-market churn, and more industry concentration). While the resulting political tensions are nothing new, they seem to have combined with cultural and identity concerns, and a resentment of various "elites,' to unleash credible threats to the rule-based, multilateral framework for international economic relations that has underpinned postwar economic growth and convergence.
- The advanced economies' unconventional monetary responses had big effects on exchange rates and capital flows to emerging markets—both in the expansion phase and as exit policies were floated and, in the case of the United States, implemented. One notable spillover recipient was China, which grappled with exchange rate policy—in the process shocking global financial markets—and suffered a period of big capital outflows. Effects of advanced-economy monetary policy on emerging markets have long been studied. There remains considerable debate, however, about the specific effects of unconventional policies on emerging markets, the latter countries' ability to react effectively to the resulting volatile capital flows even when exchange rates are flexible, and the charges some have leveled that unconventional polices inflict beggar-thy-neighbor spillovers.

No single volume can come close to answering all the questions raised by recent international experience, but this volume by research economists from the Banque de France, Banco de España, and Banca d'Italia admirably moves the ball down the field. It collects a set of rigorous and insightful analyses that will do much to inform economists' thinking on a broad range of key macroeconomic topics.

As I write these words at the end of 2017, the world economy is experiencing its most comprehensive cyclical upswing since 2010, a year in which the global economy, advanced and emerging economies alike, bounced back from the initial post-Lehman financial shock. Will the current momentum be maintained, and how can policies prolong it and increase the resilience of recovery? Studies such as those contained here are central to finding the answers.

Bon appetit, buen provecho, and buon appetito!

Washington DC, USA Maurice Obstfeld

Contents

Introduction 1
Laurent Ferrara, Ignacio Hernando and Daniela Marconi

Part I Global Growth Slowdown: Supply-Side Factors

The Productivity Slowdown and the Secular Stagnation Hypothesis 17
Patrizio Pagano and Massimo Sbracia

Growth Potential in Emerging Countries 43
Enrica Di Stefano and Daniela Marconi

What are the Drivers of TFP Growth? An Empirical Assessment 59
Iván Kataryniuk and Jaime Martínez-Martín

The Unintended Consequences of Globalization and Technological Progress 73
Riccardo Cristadoro

Part II Global Growth Slowdown: Demand-Side Explanations

Trade Weakness: Cycle or Trend? 99
Alessandro Borin, Virginia Di Nino, Michele Mancini and Massimo Sbracia

The Role of Debt Dynamics in US Household Consumption 115
Vincent Grossmann-Wirth and Clément Marsilli

Explaining Weak Investment Growth After the Great Recession: A Macro-Panel Analysis 129
Ines Buono and Sara Formai

Part III New Challenges for Monetary Policies at a Time of High Uncertainty, Low Inflation and Low Real Interest Rates

Uncertainty Fluctuations: Measures, Effects and Macroeconomic Policy Challenges 159
Laurent Ferrara, Stéphane Lhuissier and Fabien Tripier

Determinants and Implications of Low Global Inflation Rates 183
Juan Carlos Berganza, Fructuoso Borrallo and Pedro del Río

The Global Real Interest Rate: Past Developments and Outlook 217
Ignacio Hernando, Daniel Santabárbara and Javier Vallés

Part IV Exchange Rate Shocks, Capital Flows and International Spillovers

The Nature of the Shock Matters: Some Model-Based Results on the Macroeconomic Effects of Exchange Rate 233
Sophie Haincourt

International Financial Flows in the New Normal: Key Patterns (and Why We Should Care) 249
Matthieu Bussière, Julia Schmidt and Natacha Valla

International Spillovers of Non-standard Monetary Policy: Evidence From Central and Eastern Europe 271
Alessio Ciarlone and Andrea Colabella

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