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# World's economic slowdown is a hangover not a coma

## Debt lies behind much of what has happened in the past seven years, writes Kenneth Rogoff


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The global economy is possibly in the later stages of a debt 'super cycle'

What is the right diagnosis of the ailing global economy? Seven years into the global financial crisis, the International Monetary Fund is still marking down its global growth forecasts, now to the lowest level since 2009.

Some argue that we are living in a world of deficient demand, doomed to decades of secular stagnation. Maybe. But another possibility is that the global economy is in the later stages of a debt "super cycle", crushed under a burden accumulated over years of lax regulation and financial excess.

If so, it could be very hard to get a meaningful read on long-term trend growth until the smoke clears. Alvin Hansen, a Harvard professor, first came up with the secular stagnation hypothesis back in 1938, just before a spectacular productivity boom.
In the late 1970s, many analysts believed that the world would experience high inflation and low growth ("stagflation") indefinitely. In the early 2000s, many top economists believed elevated productivity growth would last for decades.

Whatever one's judgment about what ails the global economy, it is important to find approaches that are robust. Vastly increased quality infrastructure investment is a great idea. But that does not translate into a permanently sustained blind spending binge.
What if a diagnosis of secular stagnation is wrong? Then an ill-designed permanent rise in government spending might create the very disease it was intended to cure.
Actually, there can be little doubt that a debt super cycle lies behind a significant part of what the world has experienced over the past seven years. This resulted first in the US subprime crisis, then the eurozone periphery crisis, and now the troubles of China and emerging markets.

The whole affair has strong precedent in past systemic financial crises, both quantitatively and qualitatively. America's experience — whether one looks at the trajectory of housing and equity prices, unemployment and output, or public debt — has uncannily tracked benchmarks from past systemic financial crises.
This is not to say that secular factors are unimportant. Most financial crises have their roots in a slowing economy that can no longer sustain excessive debt burdens.
Surely adverse demographics are important. Some economic historians have argued the rate of technological progress is set to slow dramatically, although others argue the opposite, pointing to artificial intelligence and the networking of global researchers, which improves their ability to learn from each other. It is true that productivity growth in the US and UK has been dismal lately. This might be partly due to the collapse of global private investment after the crisis.

Or it might be partly an illusion; measuring real economic growth in a world where new products are constantly being introduced is hard — perhaps harder than ever, given the growing importance of intangible networking, communication and knowledge goods.
Standard output measures do not account for leisure time, including in retirement — the very area where technology advances have some of their biggest impacts.
Perhaps the most convincing reason to believe that the world's economic troubles are due to a chronic deficiency of demand is the extraordinarily low level of long-term global interest rates. But again, there are competing explanations.

Post-crisis financial regulations have forced banks, pension funds and insurance companies to load up on "safe" government debt. These regulations have put the squeeze on many small and medium-sized borrowers, who face strict limits on how much they can borrow, if they can borrow at all. Fear of another financial crisis also drives up demand for government bonds. And central banks have sucked long-dated safe assets out of the market, again bidding down interest rates.

If the debt supercycle is the source of our ills, what is the right response? A radical answer is to cut interest rates well below zero. This would restore the power of monetary policy to spur growth. But for now it is futuristic.

More immediately, most economists agree on using long-term debt to finance productive investment in infrastructure and education, But it would help if countries created institutions that were better at choosing projects. American progressives who favour infrastructure spending presumably do not mean constructing a giant fence along the Mexican border, and German advocates of fiscal expansion do not envisage another Berlin Brandenburg airport fiasco. President Barack Obama once proposed creating an infrastructure bank, which would employ technocrats to provide objective analysis. It was a very good idea. If advanced economies are to continue expanding the size of government expenditures (now 57 per cent of output in France), it is imperative to find better ways to make choices and decisions. Policy action is needed, but of the right kind — and in response to the right diagnosis.

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