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William White

Senior Fellow am C.D. Howe Institute, Toronto, ehemaliger Berater und
Chefökonom der Bank für Internationalen Zahlungsausgleich (BIZ)

http://williamwhite.ca

Ways Out of the Global Debt Trap:
Restructuring and Forgiveness

By William White

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Public Policy in the Lead Up to the Crisis of 2007

- Demographics, the "fall of the wall" and global disinflation
- Fiat money and irrational exuberance in AME's
- Inadequately resisted by fiscal, monetary and regulatory policies
- Leading to real and financial "imbalances"
- Spreading to EME's via semi-fixed exchange rates
- The trigger event in a complex, adaptive world; "sub-prime"

Public Policy in the Post-Crisis Period

- Monetary and non-monetary policies resisted the downturn
- Quick recognition of downsides to non-monetary policies
- Regulatory policies tightened
- Leaving monetary policy as "the only game in town"
- Increasingly inventive but essentially "more of the same"
- Yet failing to lift aggregate demand as expected.
- As Keynes himself predicted

And Leading to Still More "Imbalances"

- Global debt ratio 40 percentage points higher than pre crisis
- With EME corporates now exposed as well
- Asset prices at unsustainable levels?
- Risks of financial instability have risen
- Compounded by structural developments affecting finance
- Perhaps contributing to the slowdown in productivity growth

A Significant Downturn Seems Inevitable

- Demographics and rising "imbalances" support monetary tightening
- But existing "imbalances" imply this is risky; the debt trap
- Many other sources of economic trouble
- And troubles anywhere could mean trouble everywhere
- Given a downturn, usual support measures highly constrained

Four alternative scenarios

- Orderly debt restructuring and forgiveness
- Disorderly debt repudiation
- Financial repression and mild inflation
- Fiscal dominance and high inflation