Institute For
New Economic Thinking

DEBT OVERHANG AND SLUGGISH GROWTH

Response to Stephanie Lo and Kenneth Rogoff

BIS Conference

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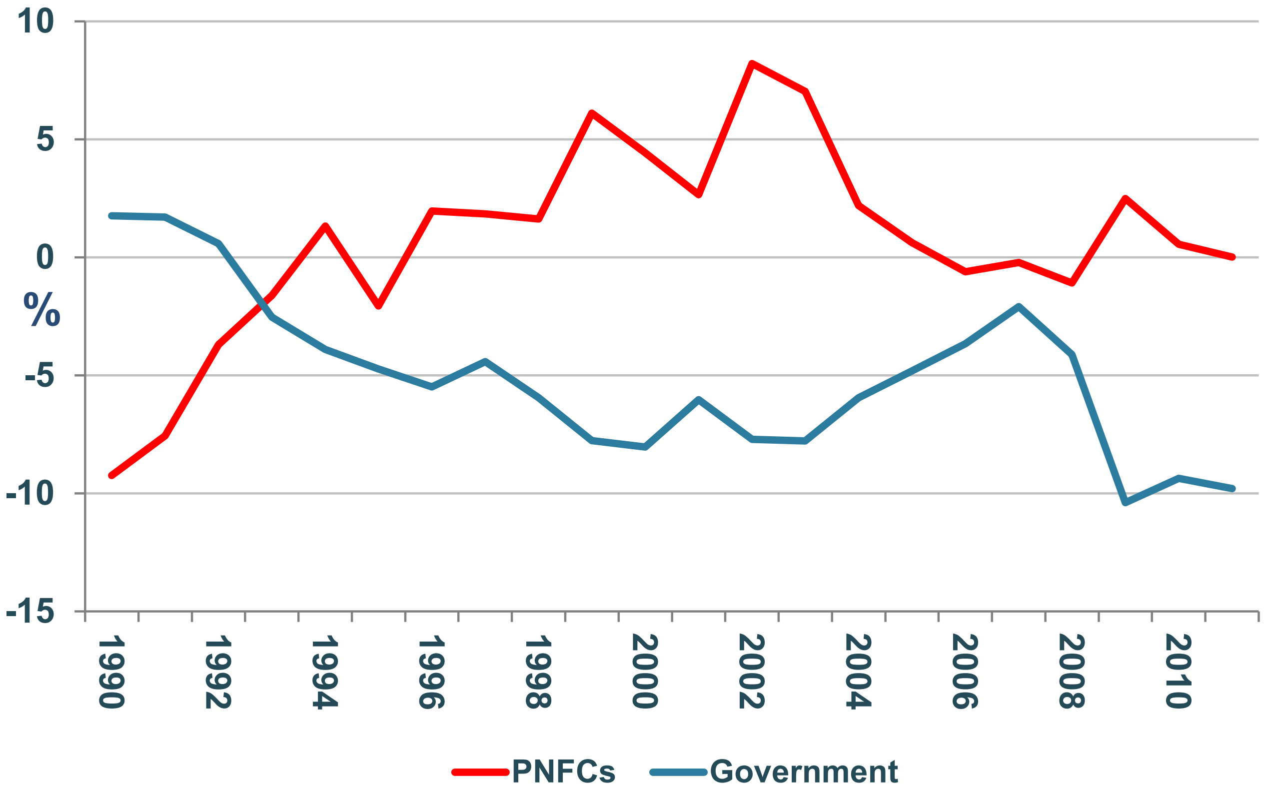
Adair Turner
Senior Fellow,
Institute of New Economic Thinking

www.ineteconomics.org | www.facebook.com/ineteconomics

300 Park Avenue South - 5th Floor
New York, NY 10010

Sectoral financial surpluses/deficits as % of GDP: Japan 1990 – 2012



Source: IMF, Bank of Japan Flow of Funds Accounts

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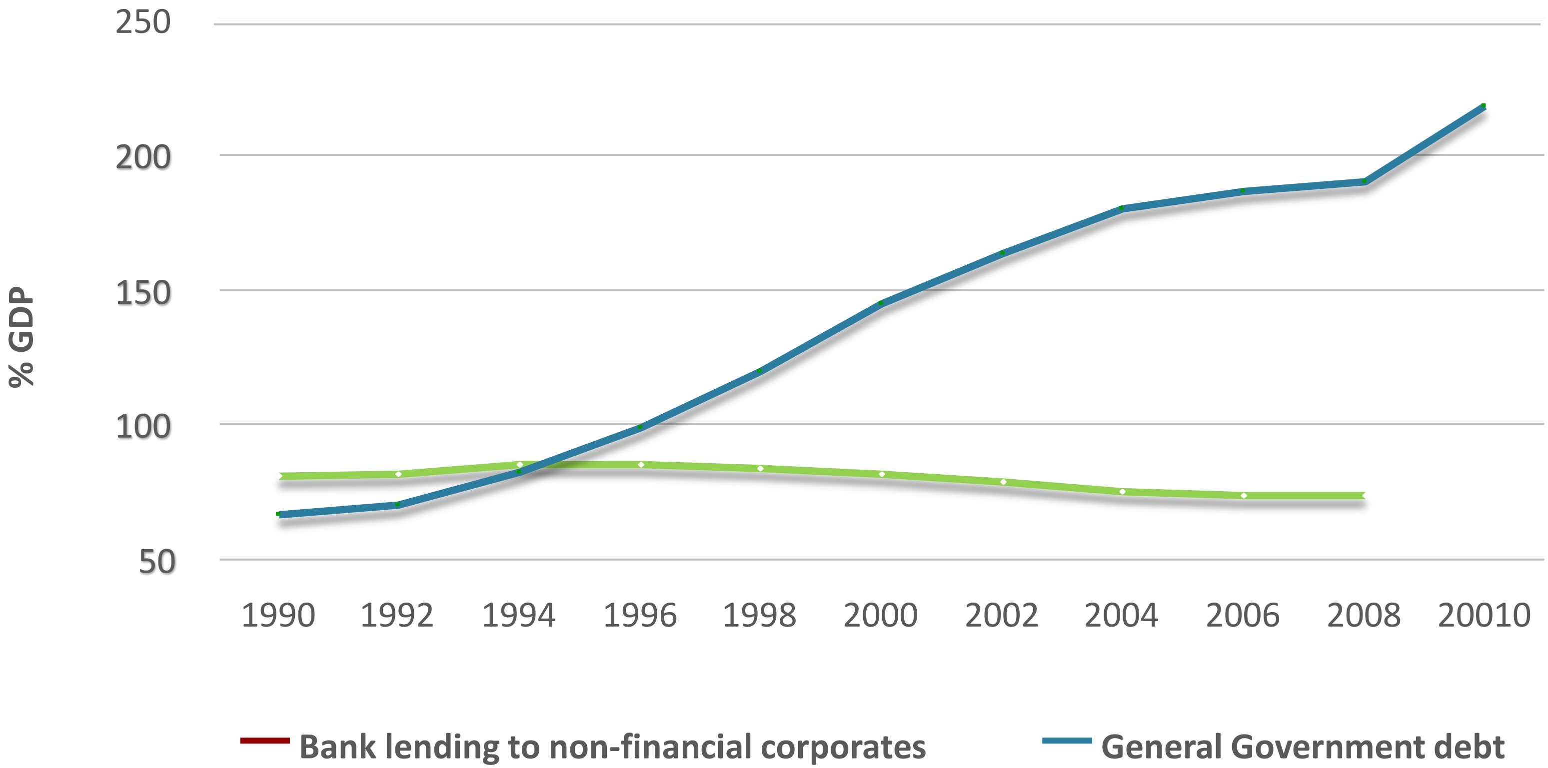
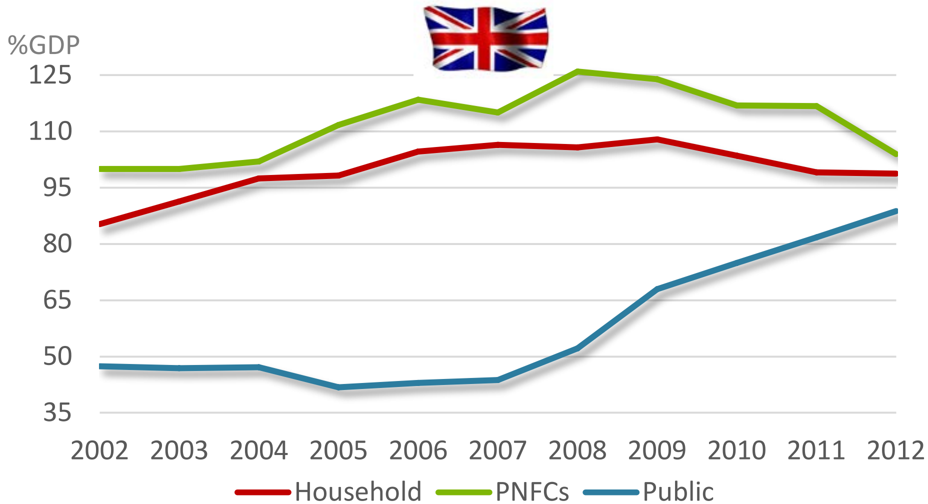
Japanese government and corporate debt: 1990 – 2010

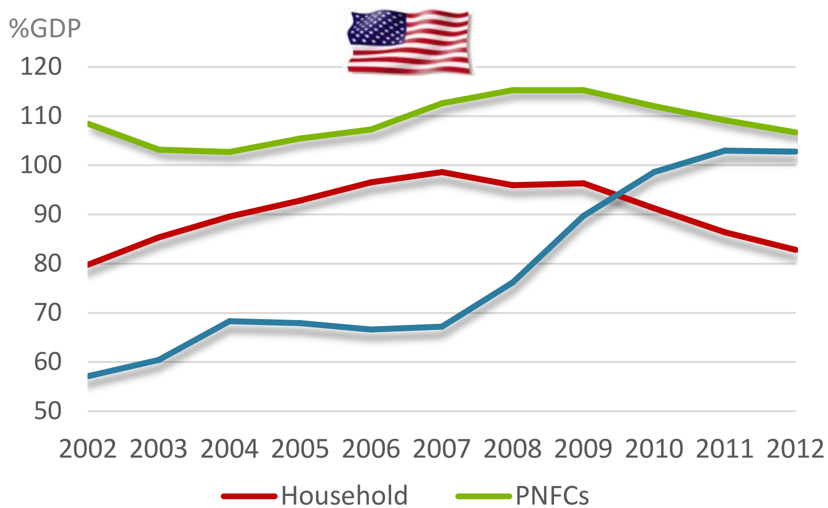


Source: BoJ Flow of Funds Accounts, IMF WEO database (April 2011), FSA calculations

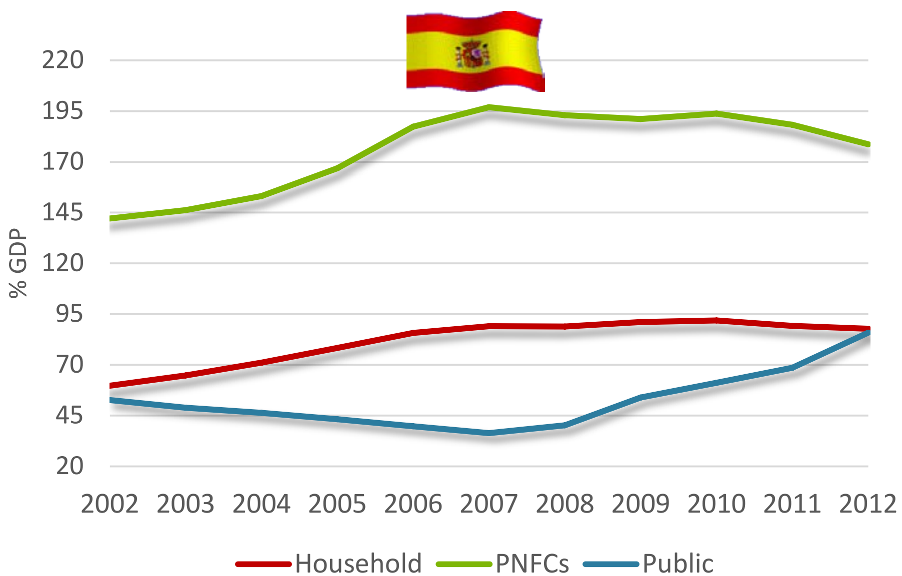
Shifting leverage: private and public debt-to-GDP



Source: OECD National Accounts

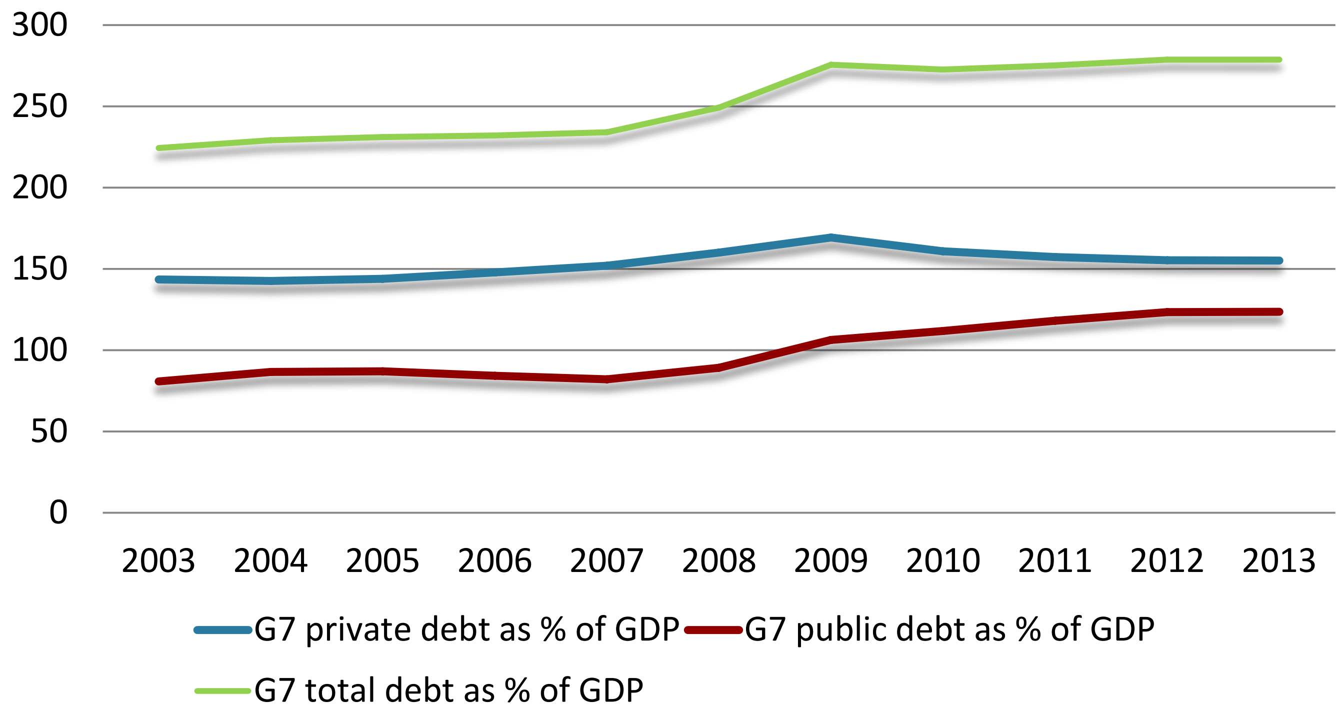


Source: OECD National Accounts



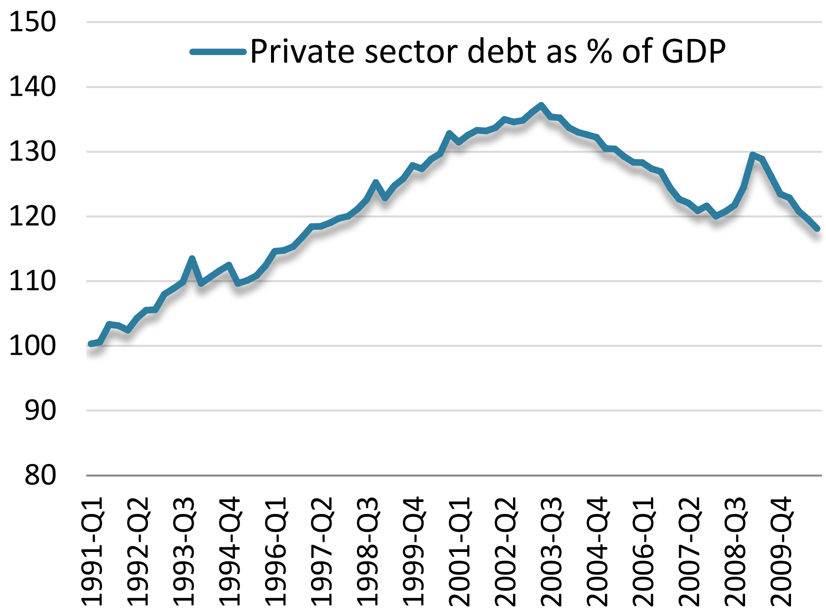
Source: OECD National Accounts

Public and private leverage :
G7 total 2003 – 2013

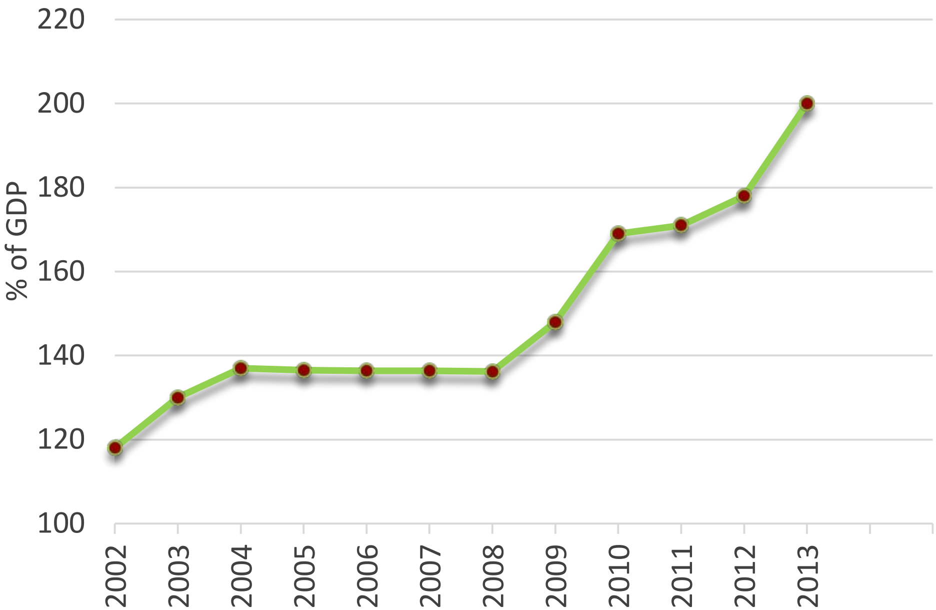


Source: BIS, IMF

Total German private sector leverage: 1991 - 2010

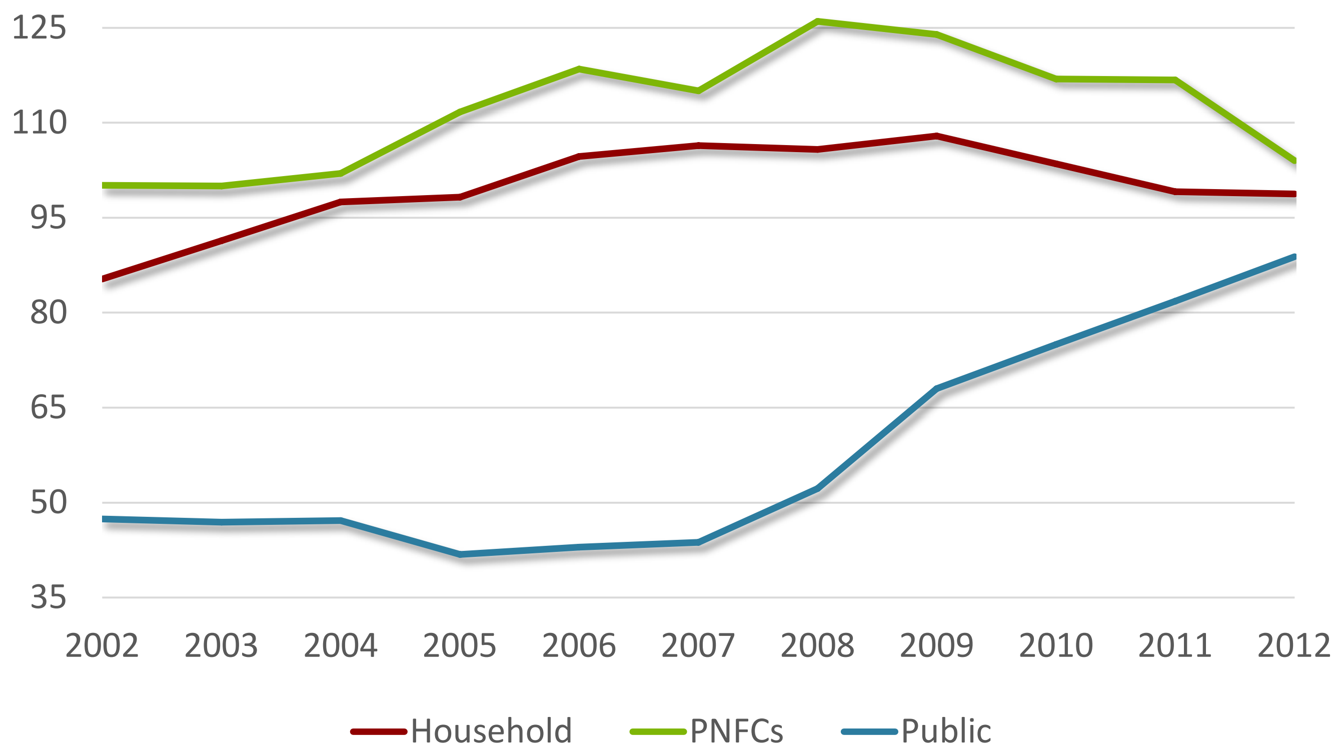


China: total social finance to GDP



Shifting leverage: private to public

UK Debt-to-GDP 2002 - 2012



Source: OECD National Accounts

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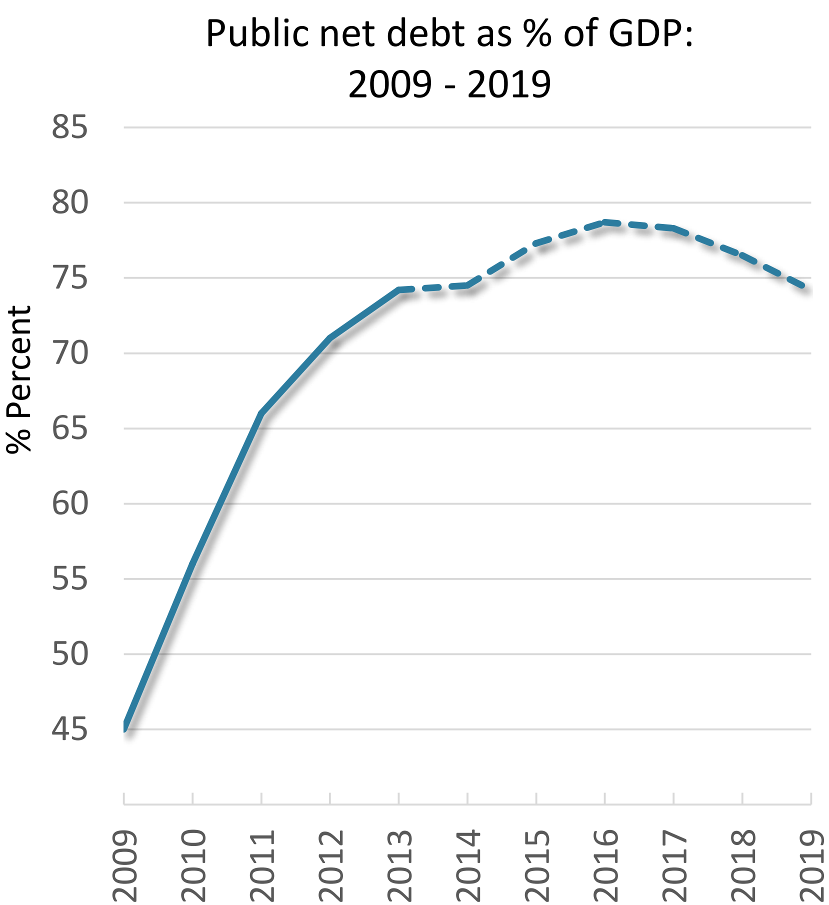
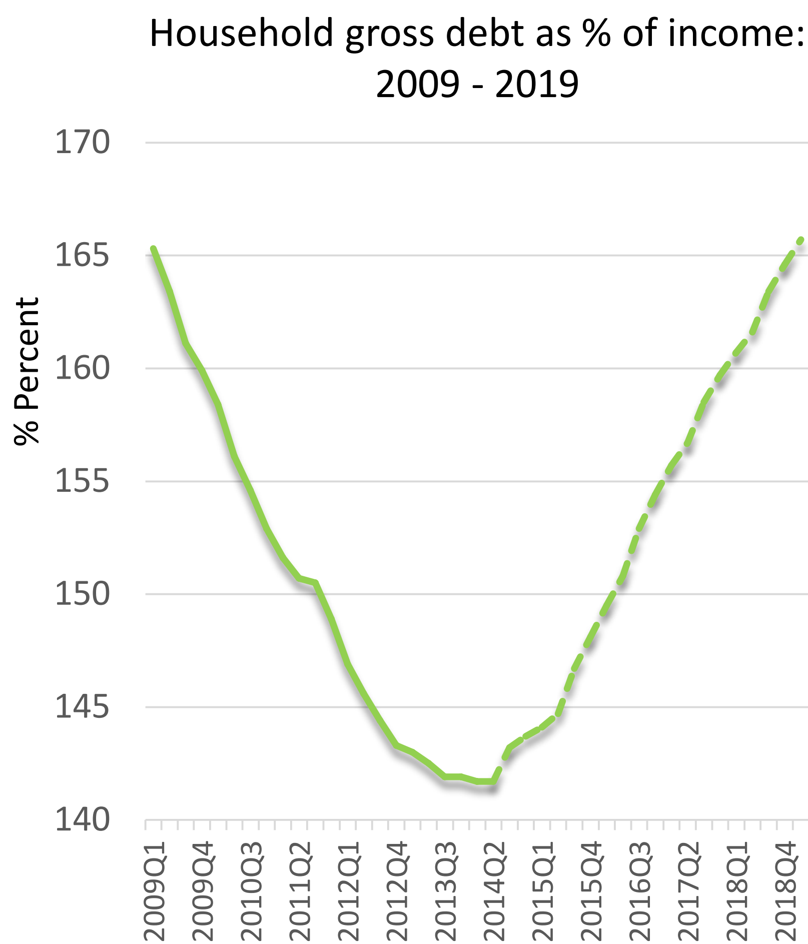
Shifting leverage: back to private again





Source: OBR Economic and Fiscal Outlook, March 2014

The Dilemma

Pre-crisis path of nominal GDP growth	**~ 4% - 5%**	→	~ 2% real growth ~ 2% inflation
Pre-crisis path of credit growth	**~ 10% - 15%**		

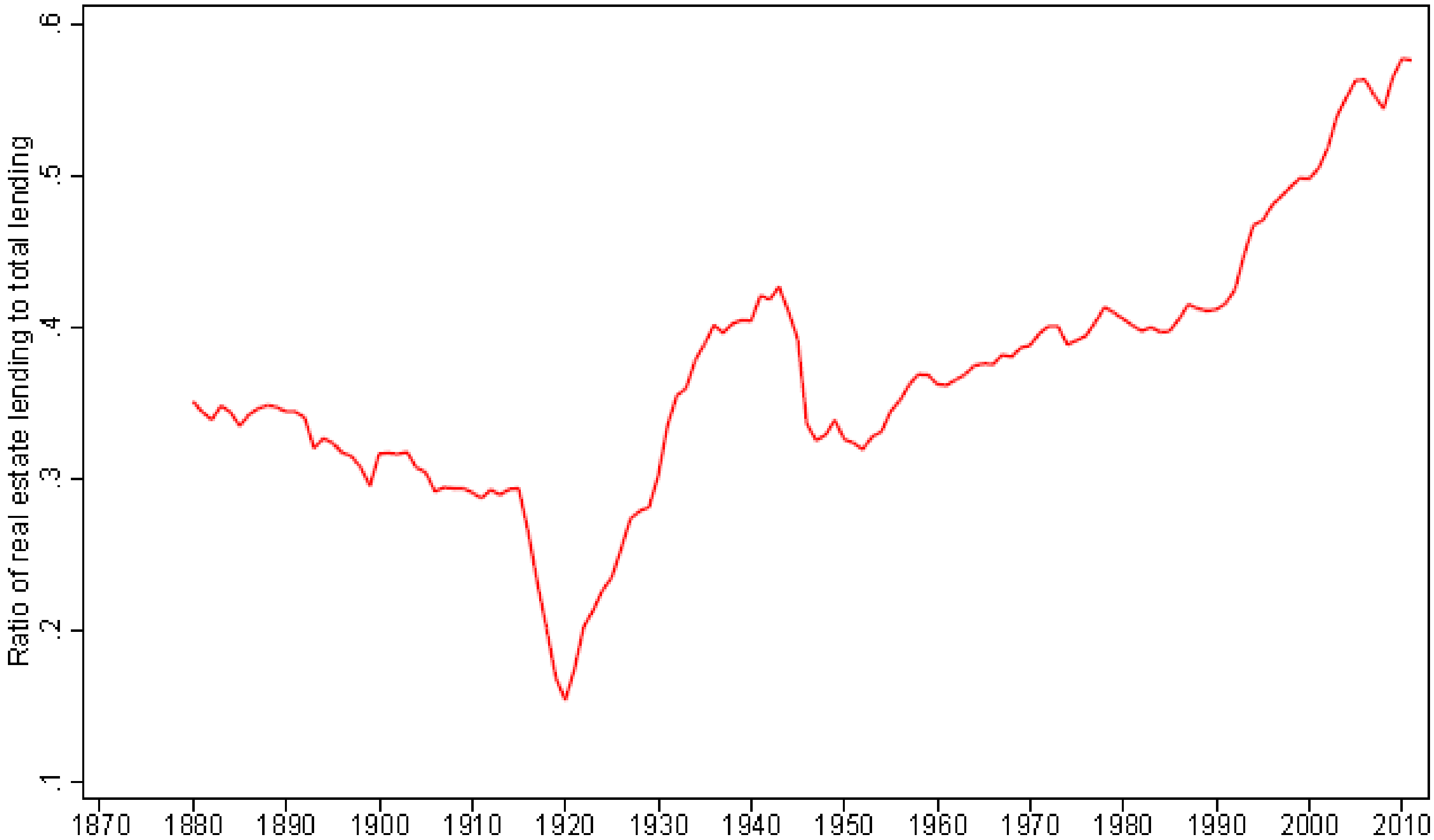
If central banks had raised interest rates to slow credit growth

…. this would presumably mean slower nominal GDP growth?

We seem to need $\dot{C}$ > NG$\dot{D}$P to ensure adequate NG$\dot{D}$P

… but this produces financial instability and post-crisis recession

Share of real estate lending in total bank lending



Source: *The Great Mortgaging,* Professor Alan Taylor, University of California, Davis