

## General Discussion of 'The Economics of Low Interest Rates'

---

The discussion around this presentation was focused on trying to understand the specific magnitude of the domestic savings glut as an explanation for the declining neutral interest rate. It also explored whether the results reflected the operation of alternative mechanisms, which may lead to a different understanding of the policy trade-off.

One participant asked whether a different mechanism for higher savings rates among the wealthy (as opposed to utility-from-wealth) may change the result. For example, given the prevalence of capital gains in the estimates and the importance of capital gains in the result, there is the potential for the savings rates to be an artefact of paper gains from declining discount rates. Dr Mian stated that the result is not reliant on the mechanism, but simply required that aggregate savings was downward sloping.

One participant noted that transformational change in technology and climate change has created space for investment, but due to current uncertainty and possible coordination failures, general investment demand is low. On this basis the participant was interested in whether these recognised demand drivers were more important for declining neutral rates.

Similarly, another participant noted that rising inequality could itself be a product of lowering interest rates, power and bargaining in a world of falling growth, and in conjunction with this work that may lead to a vicious cycle of rising inequality and falling neutral rates. Dr Mian noted that he treats inequality as exogenous in his work, but that work by Emmanuel Saez on wealth taxation indicated there were important dynamics at play.

Another participant noted that the indebted debt hypothesis should point to a world where monetary policy is more powerful – but market indicators of the yield curve indicate that significant interest rate changes are expected in the near term. Dr Mian indicated that the recent inflationary shock itself acts as a transfer of wealth, and so can lessen the effect of indebted demand.

As the work was focused on domestic savings imbalances, a participant wondered how much this related to the global savings glut hypothesis – and in turn how much does the rising middle class in China drive down the neutral interest rate. This was noted as a complementary factor that will also drive a reduction in neutral rates.