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CSTI Science Technology Innovation Policy

Institute for New Economic Thinking
UNIVERSITY OF CAMBRIDGE
FACULTY OF ECONOMICS

The Babbage Industrial Policy Network

17th Babbage Lecture, 14 May 2015

Secular stagnation, rational bubbles and fiscal policy

Coen Teulings | 17.30 - 19.30 | Thursday 14 May 2015 | Little Hall, Sidgwick Ave, Cambridge

Biography

Coen Teulings (1958) is professor of Economics at the University of Cambridge and part-time Professor of Economics at the University of Amsterdam. He served 7 years as president of CPB, the Netherlands Bureau for Economic Policy Analysis, the influential 'Financial Thinktank of the Dutch Government' that decides on what is affordable in The Hague or not and that does the evaluation of platforms of political parties prior to general elections. Previously, he was CEO of SEO Economic Research in Amsterdam from 2004 until 2006, Professor of Economics at the Erasmus University Rotterdam and director of the Tinbergen Institute from 1998 until 2004.

He became Master of Economics cum laude at the University of Amsterdam in 1985 and in 1990 he got his PhD. His main publications are in the field of labour economics (minimum wages, returns to education and income inequality, job search, marriage markets in cities, and recently on returns to seniority in Econometrica).

Beside his main job, he was a member of the REA, an independent Council of Economic Advisors for the House of Commons and he chaired several committees, e.g. the committee that framed the new examination high school program economics. He is member of a number of supervisory boards and he recently joined the Advisory Panel of the OBR. He writes a bi-weekly column in the NRC Handelsblad.

Abstract

There has been secular decline in real interest rate over the past three decades, which makes it increasingly difficult to reach an equilibrium between the supply of savings and demand from the investment side. By now, a capital market equilibrium is likely to require a negative real interest rate, which is hard to achieve due to the zero lower bound and the low rate of inflation. There are three potential causes of this excess supply of loanable funds: (i) demography and ageing, (ii) the IT revolution leading to large profits for firms with relatively low investment demand, and (iii) risk aversion, combined with a fall in the supply of save assets. Monetary authorities have responded by lowering policy rates too the zero lower bound and by QE. A frequent objection to this policy is that it increases the risk of bubbles. We argue that bubbles are inevitable when there is an excess supply of savings. In fact, bubbles contribute to efficiency by allowing a shift of expenditure from investment to consumption. There are two alternatives. Either, policy makers increase fiscal spending and sovereign debt. Or, the economy is pushed into a deep recession.

Programme - Thursday 14 May

Welcome and chair
Ha-Joon Chang (Economics, Cambridge University)

Introduction to the Babbage Industrial Policy Network
Antonio Andreoni (SOAS Economics and IfM-CSTI, Cambridge University)

Babbage Lecture
Coen Teulings (Economics, Cambridge University)

Discussants
Giancarlo Corsetti (Economics, Cambridge University)
Ken Coutts (Economics, Cambridge University)

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These lectures are free to attend. For more information visit: www.ifm.eng.cam.ac.uk/research/brg

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