Rethinking Macroeconomic Policy IV

International Economy Issues

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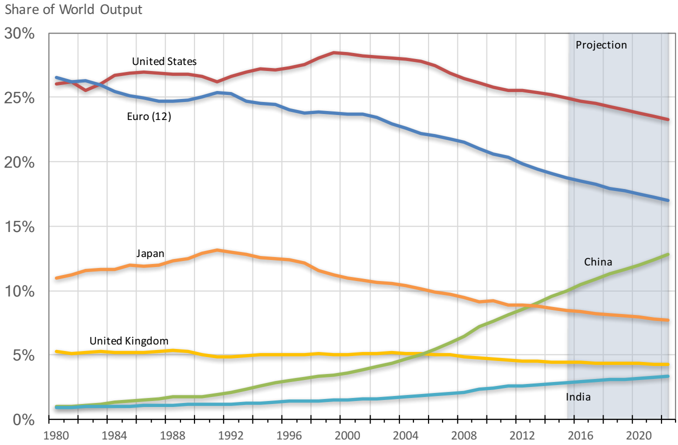
Three first-order questions:

- Transmission of monetary policy in open economies
- It's a Dollar World – a new Triffin dilemma?
- RRR question: Risk, Rents and Robots?

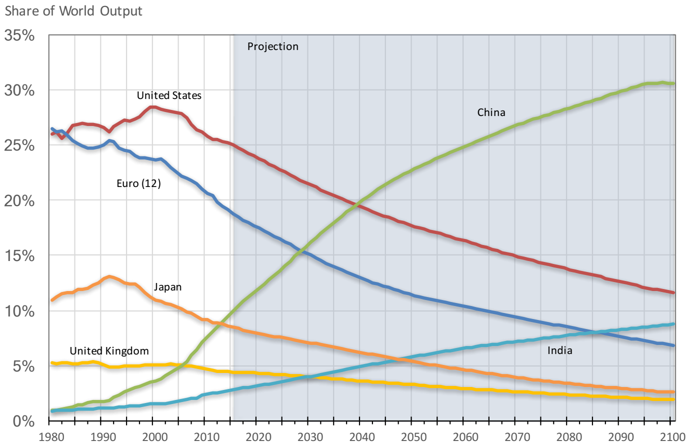
PIIE, October 2017

World Output Shares, 1980-2022



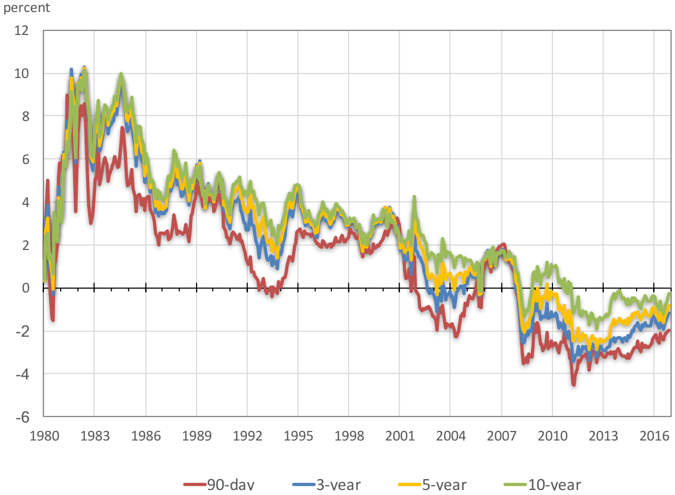
Source: World Economic Outlook, Oct. 2017

World Output Shares, 1980-2100



Source: ‘heroic’ projections from CEPII’s Econ Map (Fouré et al (2012).

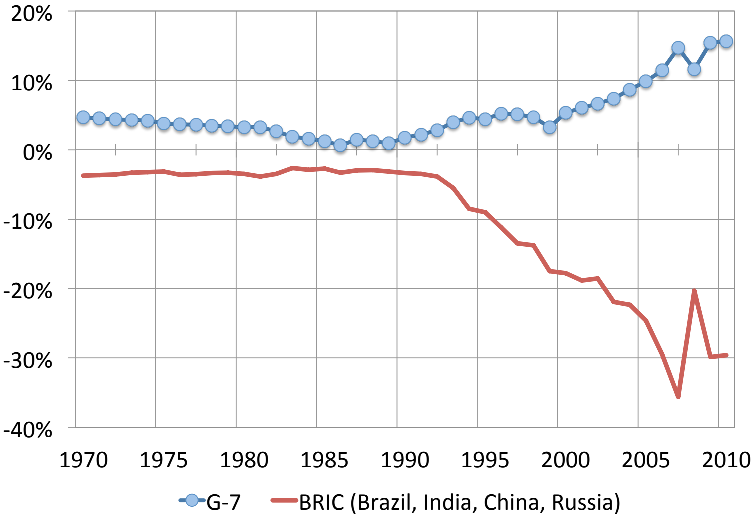
Safe Asset Scarcity and Global Safe Real Rates



Ex-ante real yields on U.S. Treasury Securities constructed using median expected price changes from the University of Michigan's Survey of Consumers. Source: FRED.

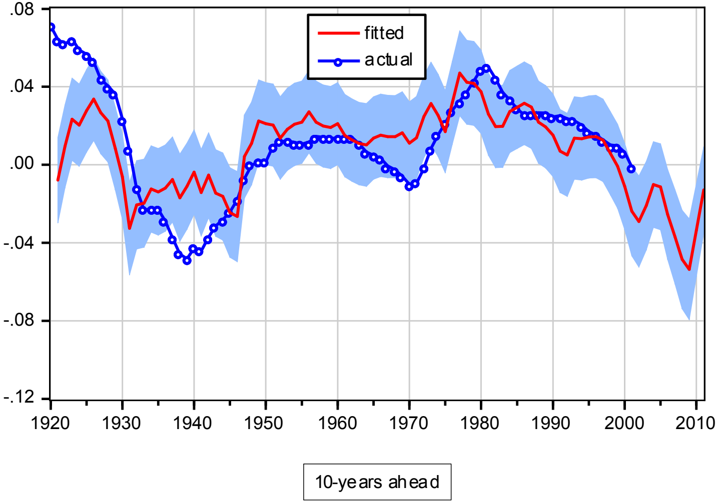
Safe asset shortage leads first to a decline in real rates and global imbalances, then, at the Effective Lower Bound to a global recession and increase in risk premia.
Caballero, Farhi, Gourinchas (2016, 2017a)

Net Risky Position (% of group GDP)



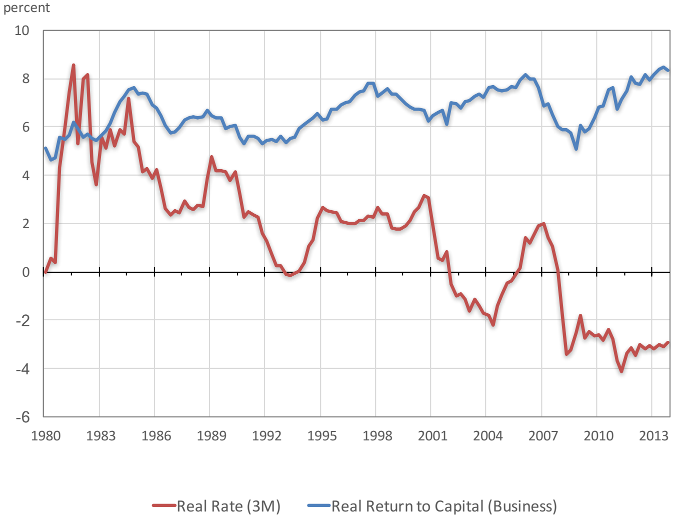
Net Risky Position defined as gross equity and direct investment assets, minus gross equity and direct investment liabilities. Source: Lane and Milesi-Ferretti (2007) updated to 2011

Global Real Rates, Low For How Long?



The figure forecasts the 10-year average future short risk-free rate using $\ln(C/W)$. Graph includes 2 standard deviation bands. Source: Gourinchas & Rey (2017)

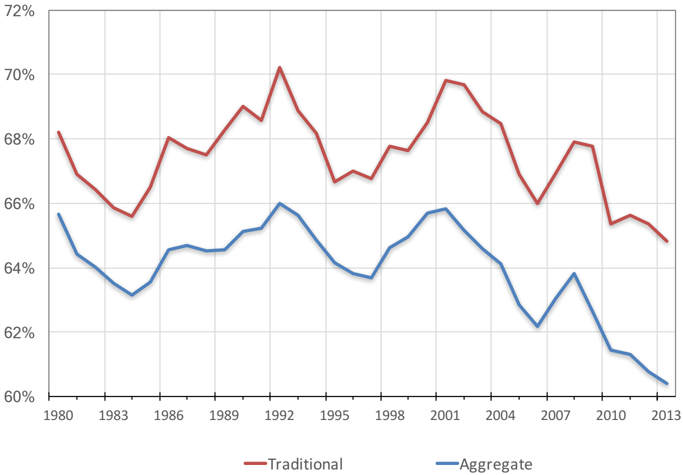
Safe Rates vs. Return to Business Capital



U.S. real (ex-ante) 3mo real rate and U.S. real aftertax return to all capital, adjusted for intangibles (Source: Gomme et al (2015) and Koh et al (2015)).

After 2001, return to business capital and safe rates diverge. Caballero, Farhi, Gourinchas (2017b)

The Decline in the Labor Share



From Koh, Santaeulalia-LLopis and Zheng (2016). The "Traditional" labor share includes only capital income from traditional capital. The "Aggregate" labor share includes intangibles using post-2013 BEA revision data.U.S. real (ex-ante) 3mo real rate and U.S. real aftertax return to all capital, adjusted for intangibles.

Risks, Rents or Robots? (RRR)

1. Increase in capital risk premia (extreme form of safe assets scarcity)

2. Increase in economic rents (markups, competition, concentration)

3. Increased automation/capital-biased technical change (robots)

First-Order Implications for

- Financial and macroeconomic stability
  (effective lower bound, safety & liquidity traps, currency wars, search for yield...)

- Income and wealth inequality
  (across and within countries; decline in labor share, protectionism, political economy)

- Capital Flows & Exchange rates
  (imbalances in gross and net flows, valuation effects & retrenchment, appreciating trends in RER for safe asset suppliers)