

Dialogue and Events

Opinions

Public Lecture on “Dealing with Debt”

In connection with the conference on sovereign debt (see page 9), the UBS Center organized a public talk on the same topic with Professor Ken Rogoff from Harvard University on June 23.

Thanks to his recent best-selling book *This Time is Different: Eight Centuries of Financial Folly*, Rogoff is widely regarded as one of the world’s leaders on the topic. This may explain why the main auditorium of the University of Zurich was much too small for the hundreds of people who wanted to hear what the former IMF Chief Economist had to say about the world’s current debt problems.

Prepare for continued weakness and debt write-downs

Rogoff started off with an overview of the breadth and depth of the current debt problem, showing that debt levels – private, sovereign, external, and pension-related – remain near record levels. Particularly Europe is still faced with a large debt overhang, which, as historical evidence suggests, generally lasts for more than two decades. We must therefore expect years more of sluggish growth as well as further write-downs of debt.

Unfortunately, it is the very same high debt levels that prevent governments from counteracting the negative consequences of this debt with fiscal policy. Meanwhile, the historically low interest rate levels impair the other main policy lever – monetary policy – for fighting low growth. In such a context, Rogoff considers negative interest rates – i.e. setting the base rates below the traditional lower bound

of zero – not only as a legitimate mean for central banks, but actually as a welcomed new addition to their monetary policy toolkit. What is more, this change will, in his view, prove a landmark development:

“The elimination of the zero bound is the next major turn in monetary policy, akin to the ending of the gold standard and fixed exchange rates.”

Negative interest rates as a tool for fighting recessions and deflation would be undermined if people started hoarding large amounts of cash in order to avoid the charging of negative interest. Rogoff thus advocates a gradual phase-out of cash, starting with banknotes with large denominations. Apart from rendering negative interest rates an effective monetary policy tool, such a move would have further positive side effects, as it would make tax evasion as well as the funding of terrorists or organized crime much more difficult.

Hard to believe, but on top of this already very broad subject matter, Rogoff also managed to squeeze in substantive assessments on several other top themes such as austerity policies (worked in Britain), secular stagnation (completely exaggerated), and innovation (will continue or even speed up, don’t you worry). And while these additional topics may seem rather diverse, their analyses shared at least one common insight: Larry Summers got it all wrong.



Ken Rogoff advocates for a gradual phase-out of cash



All eyes on Ken Rogoff in the main auditorium of Zurich University