

# Discussion of Borio et al (2017) 'Why so low for so long? A long-term view of real interest rates'

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This does not reflect the views of the Bank of England

# What this paper does

- Estimates a long cross country panel regression of the real interest rate on its neoclassical 'determinants'
- Mostly finds a weak and unstable relationship
- Adds dummies for the monetary regime
- Finds large and statistically significant effects

# What I liked

- A published non-result
- Investigating an under-researched question - long-run monetary non-neutrality

# Convincing a sceptic

- The non-results
  - Median correlations
  - Model specification
- The result
  - Measuring real interest rates
  - Identification

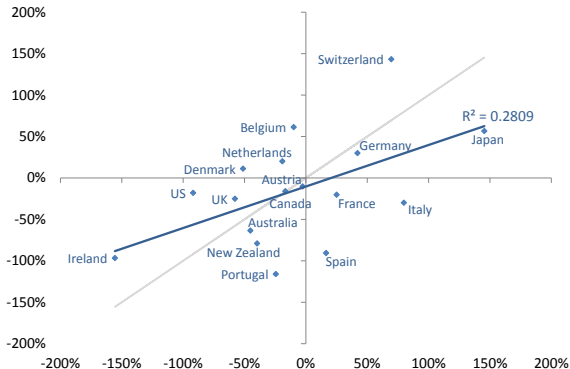
# Median correlations

- The paper plots cross country medians of real variables against the real interest rate
- The identity of the median country could be different
- Use (trimmed) means instead

- Which model are the authors taking to the data?
  - Role of dependency ratio depends on retirement age and how financed
  - Multi-decade dynamics
  - Multiplicative effects e.g. between age structure and life expectancy
  - Current real rate associated with *future* growth
- Suggestion - take a model like Gagnon et al., Eggertsson et al. or Lisack et al. to the data
- Look at coefficient magnitudes as well as significance

# Open economy: model vs data

NFA/GDP in the data vs Lisack et al. model



Note: Model on x-axis and data on y-axis, grey line is the 45 degree line.

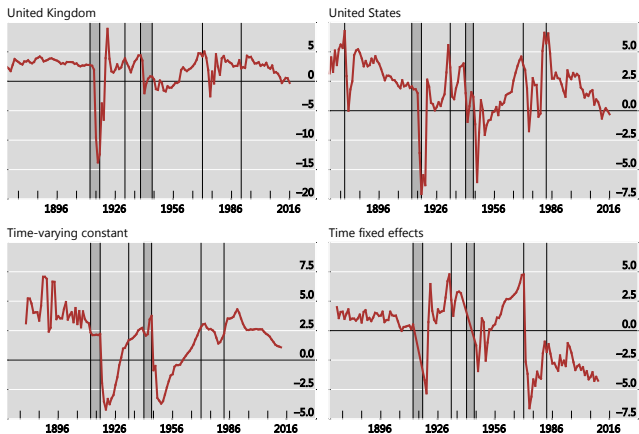


# Time effects

## Real rate and monetary policy regimes

In per cent

Graph 5



The shaded areas indicate the wars, 1914-1918 and 1940-1945 for the United Kingdom; 1914-1919 and 1942-1945 for the United States.

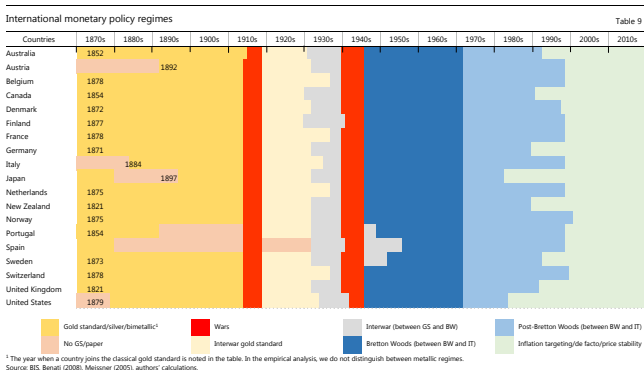
The vertical lines indicate the year corresponding to a monetary policy regime shift. For the United Kingdom: 1914, 1919, 1932, 1940, 1946, 1972 and 1992; for the United States: 1879, 1914, 1919, 1934, 1942, 1946, 1972 and 1984. For the lower panels, we use the regime dates of global monetary anchor countries, namely the United Kingdom up to WWI and the United States thereafter.

Sources: BIS, Benati (2008), Meissner (2005), authors' calculations.

# Measuring real interest rates

- Authors use rolling AR(1) model for expected inflation
- Likely to perform poorly at the inception of regime changes
- Drop early years of each new regime?

# Regime changes



p30: 'Unless there is an unobserved global real factor that accidentally coincides with (or, even harder to imagine, endogenously prompts) monetary regime switches, then the monetary regimes themselves seem to be dictating real rate behaviour'

- Candidates:
  - World and Vietnam wars
  - Oil shocks
  - Great Depression
- Look for narrative evidence on causes of regime shift

# Summing up

- Promising paper on important topic
- Nice to see a non-result
- Evidence could be made more conclusive
  - Test the neoclassical model more carefully
  - For monetary results, address exogeneity and drop early years of monetary regime
- But believers and sceptics must be prepared to change their minds