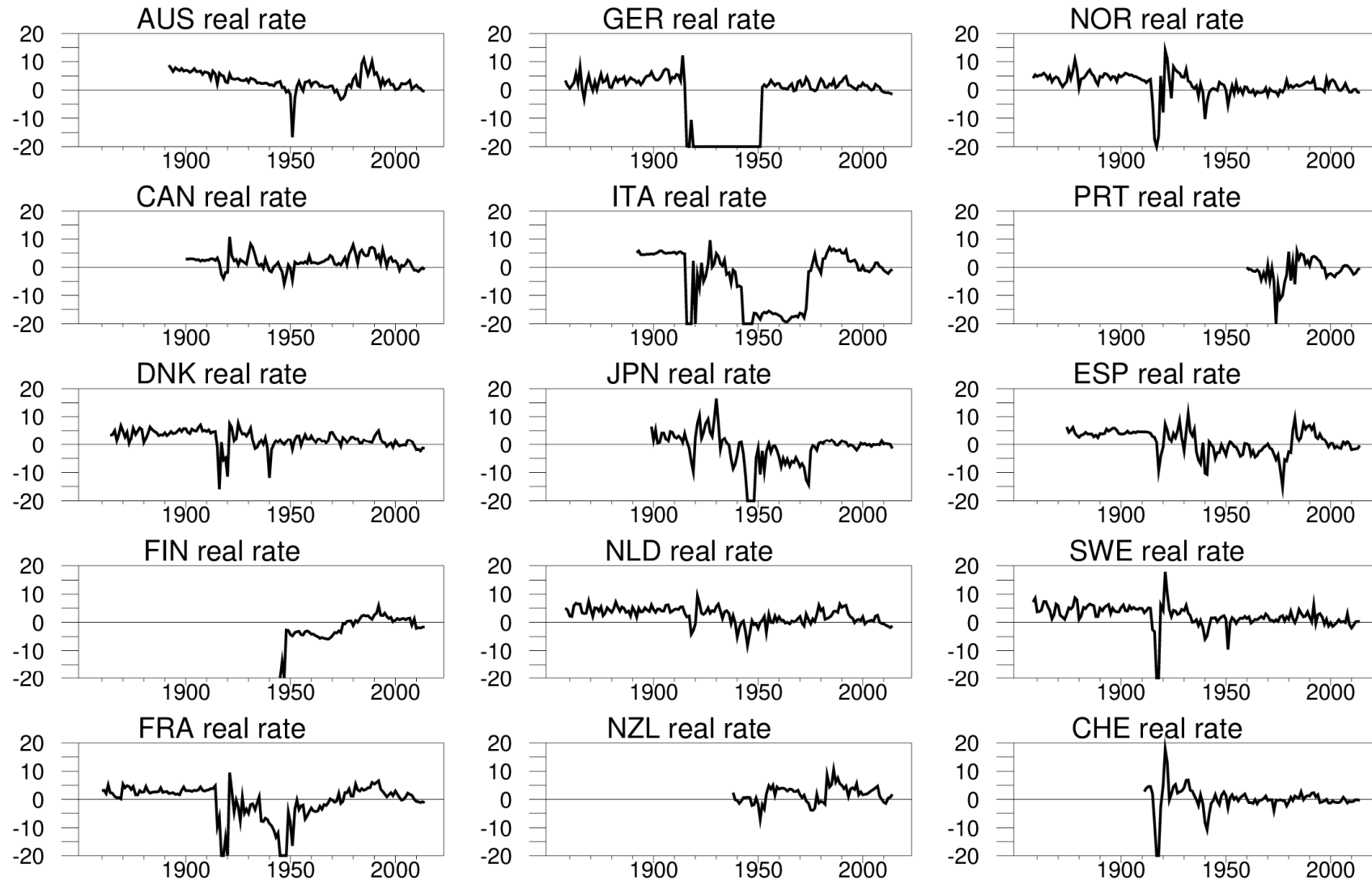


Why so low for so long? A long-term view of real interest rates

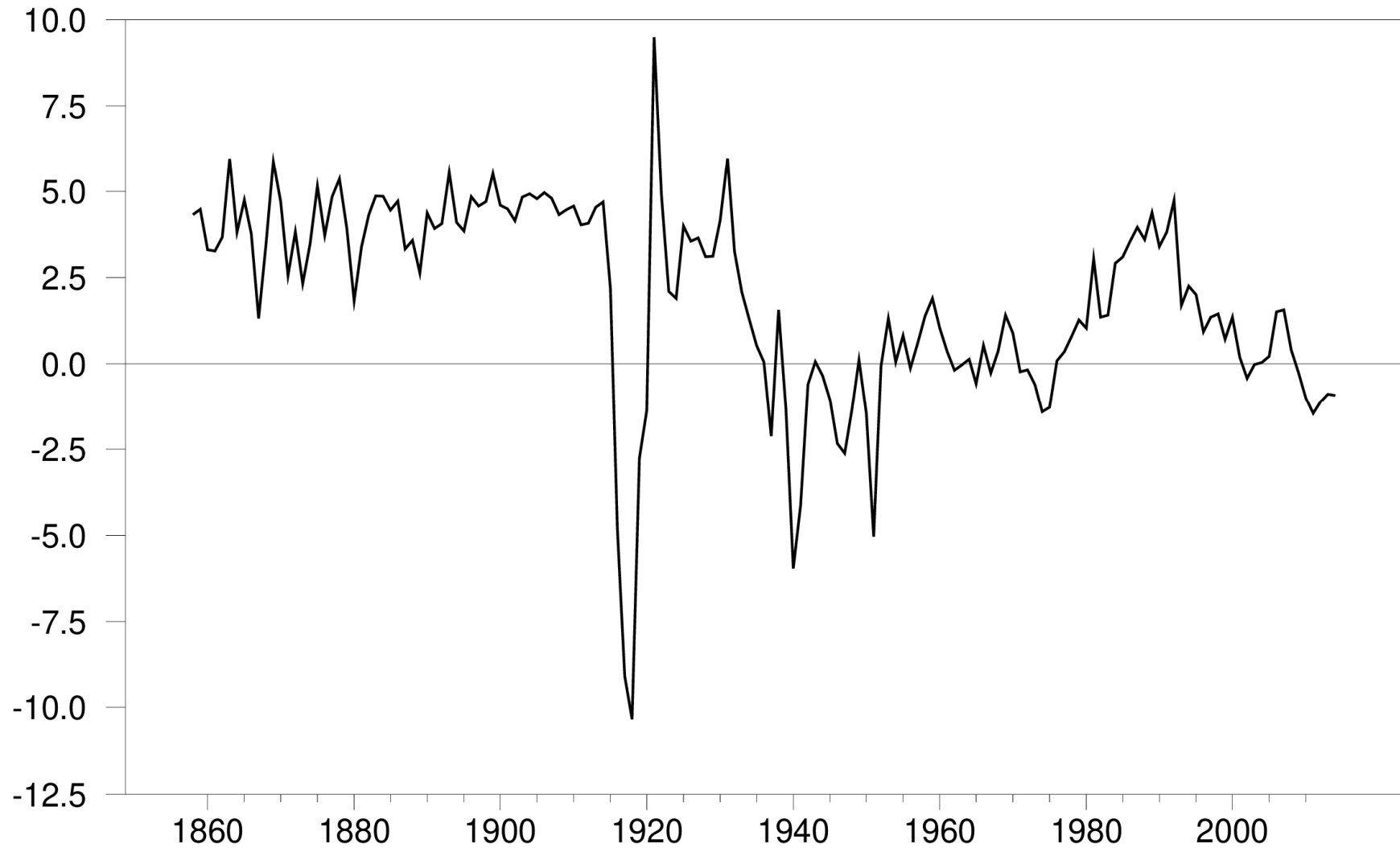
Discussion by James D. Hamilton

- Multiple explanations have been proposed to explain falling real rates over last 40 years
- This paper takes much longer perspective
 - Existing explanations don't fit long-run trends
 - Monetary regimes do

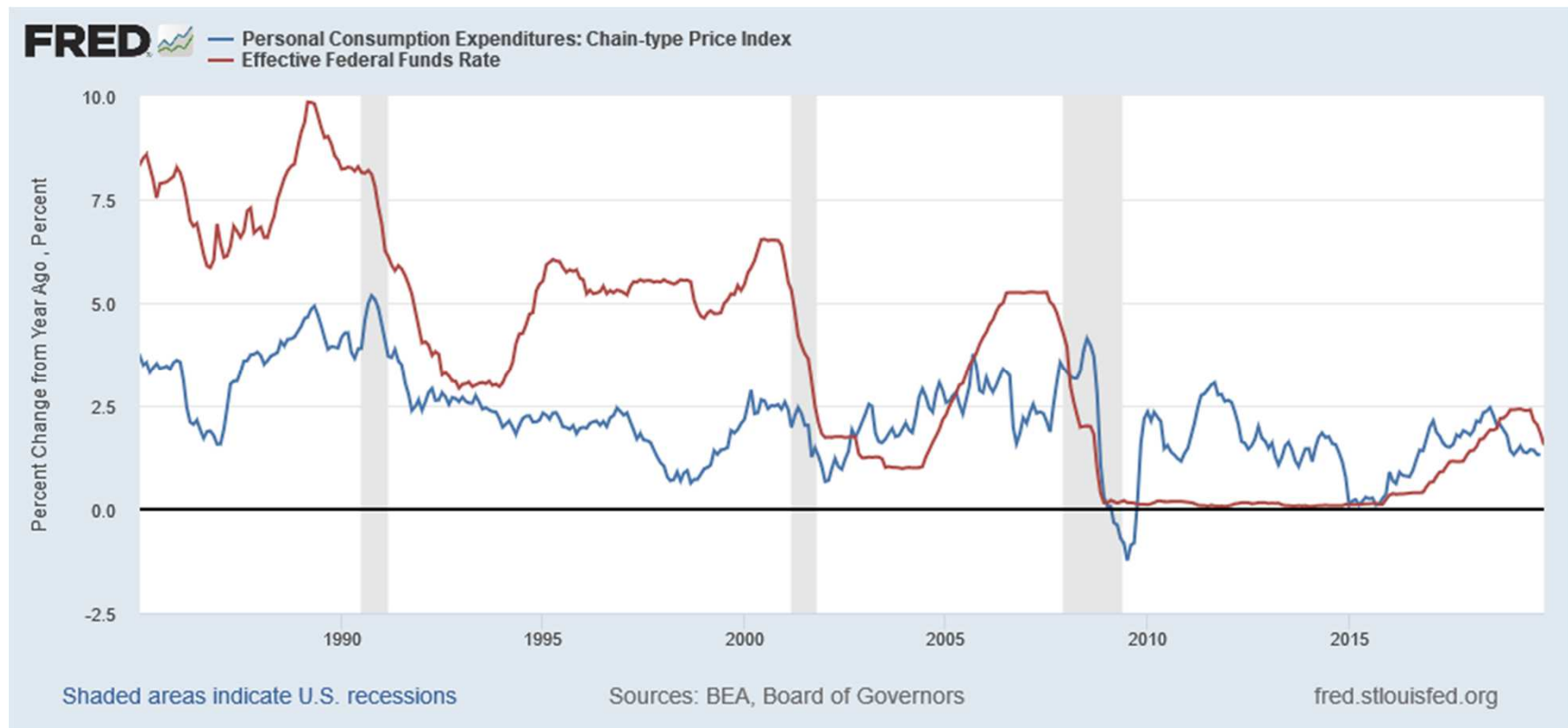
Real ex ante policy rates from Hamilton, Harris, Hatzius, and West (IMF Econ Rev 2016)



Median world real rates from Hamilton, Harris,
Hatzius, and West (IMF Econ Rev 2016)
Median world real short rate



Has monetary policy over the last 10 years been that powerful?

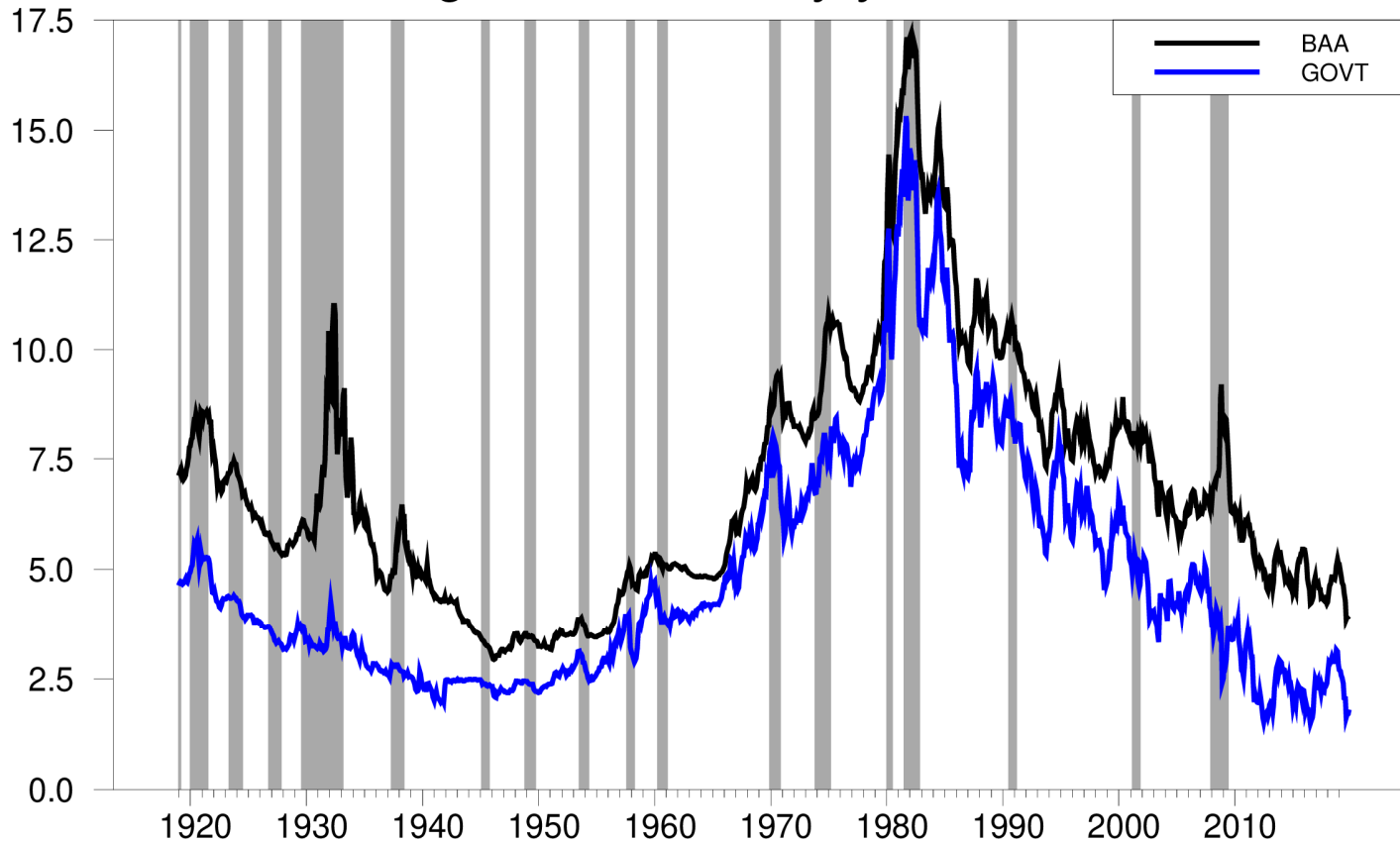


Monetary regimes or fiscal regimes?

- Hyperinflations after WWI and WWII were fiscal (not just monetary)
- Fiscal dominance
- Financial repression
 - Banks are forced to hold government debt
 - Controls on capital flows and interest rates
 - Literature has often used unusually low or negative real rates as measure of financial repression

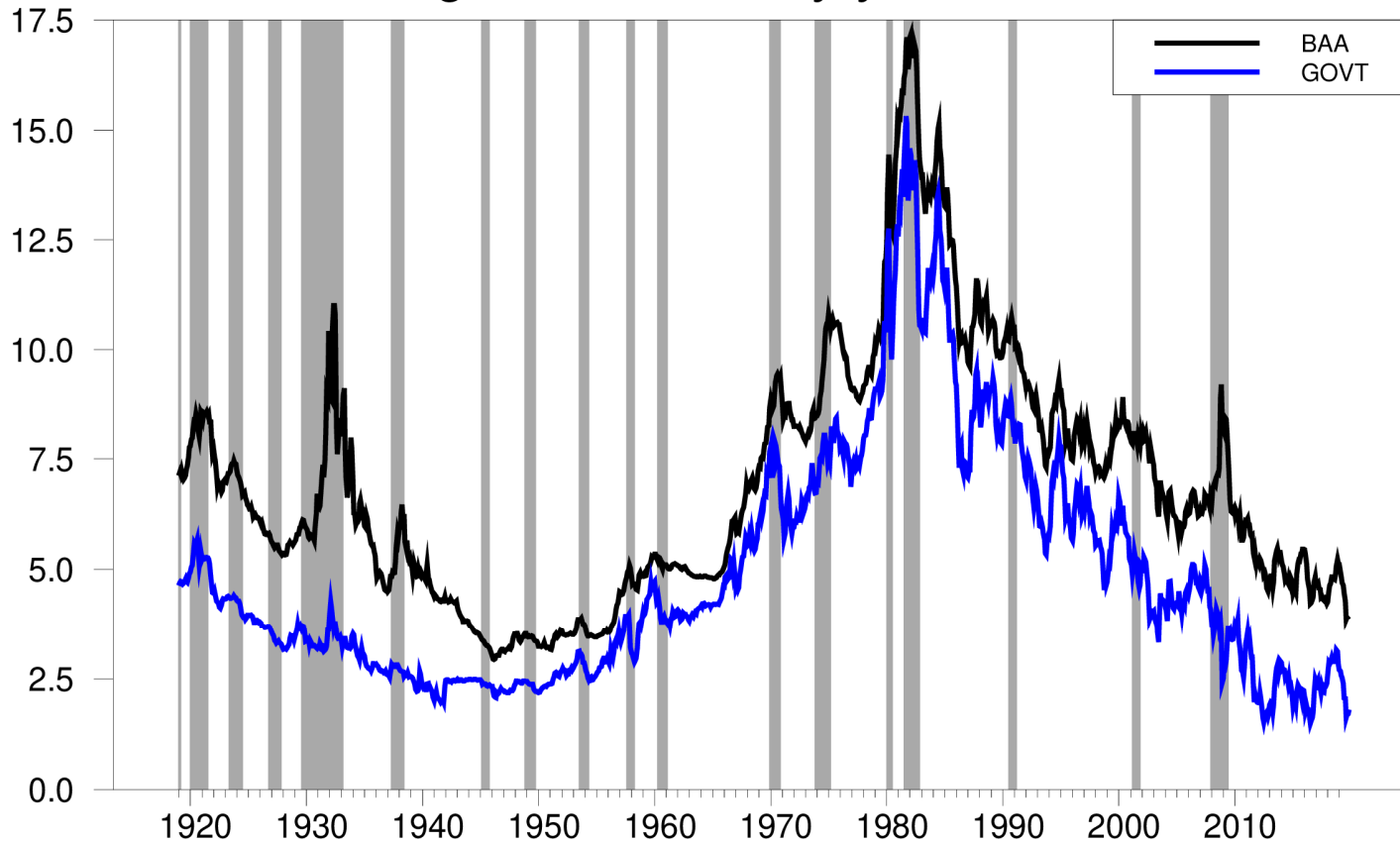
Nominal yields on U.S. Baa and long-term Treasury securities

Baa rate and long-term Treasury yield, 1919:1-2019:11



Nominal yields on U.S. Baa and long-term Treasury securities

Baa rate and long-term Treasury yield, 1919:1-2019:11



Spread high 1919-1940, low 1940-1990, high 1990-2019

Long-run predicted real short rate (rolling GARCH regressions, Hamilton, Harris, Hatzius, and West)

