The savings glut in Europe: The case for a different approach of political economy

After recalling the quantitative relevance as of end-2019 of “new normal” ultra-low interest rates at world level, a brief discussion is offered of key areas of economic analysis and policy critically impacted by negative nominal interest rates. Specific reference is made to the following points. Risk modelling/measurement and the Basel risk-weighted capital framework. The operational viability of banks and insurance companies and the growth of leveraged loans. The liquidity trap revisited and the risk of illiquidity. Secular stagnation and the savings glut: the role of monetary policy. Political economy in the EA: a macro-prudential network perspective to prevent systemic risk. The case for infrastructure investment. On the basis of the arguments presented, it is argued, in the concluding remarks, that the costs of prolonged primary reliance on monetary expansion and sub-zero interest rates outweigh the benefits. A more balanced policy approach is outlined, with a view to improving the functioning of the Eurozone, enlarging the policy space, and reducing financial vulnerabilities.

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