

The future of the global savings glut



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- Just over ten years ago, before he became Chairman of the Federal Reserve, Ben Bernanke gave a speech trying to explain why long-term interest rates weren't increasing as the Fed was increasing short-term interest rates.
- Bernanke's answer was the "global savings glut," which he defined as savings from emerging markets, such as China, and oil producing nations—all of which were creating a surplus of savings that was keeping interest rates low.
- But a decade and a global financial crisis later, Bernanke has re-evaluated the global savings glut and presented an update.
- The occasion for Bernanke's [remarks](#) yesterday was a conference hosted by the [Center on Budget and Policy Priorities](#) about the importance of full employment. Bernanke started his talk by discussing secular stagnation, the argument that says interest rates need to be extremely low to produce anything close to [full employment](#).
- The former Fed chair said he agrees with some parts of Larry Summers' story, but he seems to have one major disagreement with secular stagnation.

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- Bernanke mentioned a [paper](#) by economists James D. Hamilton of the University of California-San Diego, Ethan S. Harris of Bank of America Merrill Lynch, Jan Hatzius of Goldman Sachs, and Kenneth D. West of the University of Wisconsin that looked at secular stagnation.
- Part of Summers' argument is that the lack of overheating in the U.S. economy during the housing bubble is indicative of how much more demand the economy could use.
- What the four economists point out is that the large, simultaneous trade deficit basically cancelled out the increased demand from the housing bubble.
- As Bernanke pointed out, secular stagnation seems to be focused only on individual economies and ignores the international aspects. Secular stagnation, he argues, really only works if we think the entire global economy is in that state.
- And this is where Bernanke turns to the global savings glut. He points out that the U.S. trade deficit has declined by half since 2006. Part of that decline is because the United States has again become an oil exporter.

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- Yet there is a new home for the shrinking though still consequential global savings glut. Bernanke points to Europe as a new source of global imbalances and savings.
- Part of the rapid increase in European savings over the past 10 years has been German savings. But the majority of the savings has been from the countries in the European periphery, such as Greece and Spain.
- As these economies recover, they should be saving less, Bernanke argues. But then again, the increase in German savings seems to be structural. Bernanke promised a [blog post](#) with figures on this point later in the week.
- So when it comes to demand in the global economy, Bernanke doesn't seem to think the problem is a general shortfall. Rather it's the distribution of demand in the global economy that seems to be out of whack.
- The issue of global imbalances, a topic of much demand prior to the Great Recession, might be making a return.