

Martin Summer

Head of Economic Studies Division
Oesterreichische Nationalbank



Introductory Remarks

Ladies and Gentlemen,

Why is growth still sluggish, even seven years after the financial crisis? The speakers at the conference today have already mentioned some of the main issues that dominate the current debate: The sustained lack of aggregate demand, adverse demographic developments, slowdown in innovation and technological progress, lingering uncertainty and political polarization.

In this session we will focus on another major issue in this debate: Debt overhang. Some authors, most prominently Reinhart and Rogoff (2009 a,b), see the sluggish aftermath of the crisis as a consequence of a significant debt overhang. This focus on debt overhang problems can be traced back to Fisher's theory of debt deflation from 1933. These views are taken up in the recent literature both theoretically and empirically. From the theory side – for example – Fostel and Geanakoplos (2008) and Geanakoplos (2010) investigate the feedback dynamics between leverage and asset prices. Mian and Sufi (2014), using a rich data set on US households, show that debt overhang problems are of first order importance in explaining the exceptionally slow recovery we have experienced. They show for the USA that the magnitude of household leverage can explain the entire decline in house prices as well as the decline in durable consumption.

The overall evidence suggests that the overall debt level as well as the composition of debt plays a key role for the speed of recovery. Debt overhang creates a negative cycle in which growth becomes sluggish as a result of high debt levels. This makes deleveraging harder, feeding again back on slow growth.

I am very happy that we have today two leading experts in the field with us, who will in the next 60 minutes go

through some of the aspects of the debt overhang and growth nexus.

Juan Jimeno is Head of the Research Division, Banco de España since October 2004. He holds a Ph. D. in Economics from MIT. Before joining Banco de España, Juan worked as a lecturer at the London School of Economics and as a Professor of Economics at the University of Alcalá. He is an expert in labor economics and macroeconomics and has published widely in these fields. His recent work is focused on the long term consequences of the recent crisis, a field he also worked on intensively as a Duisenberg Fellow of the ECB during 2014. Juan served on various expert commissions and academic boards. He is a Research Fellow of the CEPR (Center of Economic Policy Research) and IZA (institute for the study of labor).



Ugo Panizza is Professor of Economics and Pictet Chair at the Graduate Institute, Geneva. He is also the head of the Department of International Economics and the Deputy-Director of the Institute's Centre on Finance and Development. Prior to joining the Institute, Ugo was the Chief of the Debt and Finance Analysis Unit at the United Nations Conference on Trade and Development. He also worked at the Inter-American Development Bank and the World Bank and was an assistant

professor of economics at the American University of Beirut and the University of Turin. His research interests include international finance, sovereign debt, banking, and political economy. He is a former member of the executive committee of the Latin American and Caribbean Economic Association (LACEA) and an editor of the Associa-

tion's journal *Economia*. He is also a member of the editorial board of *The World Bank Economic Review*, the *Journal of Economic Systems*, and the *Review of Economics and Institutions*. He holds a Ph. D. in Economics from The Johns Hopkins University and a Laurea from the University of Turin.

References

- Fisher, I. 1933.** The debt-deflation theory of great depressions. In: *Econometrica* vol. 1 no 3. 227–357.
- Fostel, A. and J. Geanakoplos. 2008.** Leverage Cycles and the anxious economy. In: *American Economic Review* vol. 98 no. 4. September. 1211–1244.
- Geanakoplos, J. 2010.** The Leverage Cycle. In: Acemoglu, D., K. Rogoff and M. Woodford (eds.). *NBER Macroeconomic Annual 2009* vol. 24. University of Chicago Press. 1–65.
- Mian, A. and A. Sufi. 2014.** *House of Debt: How They (and You) Caused the Great Recession, and How We Can Prevent it from Happening Again*. University of Chicago Press.
- Reinhart, C. and K. Rogoff. 2009a.** The aftermath of financial crises. *American Economic Review* 99. 339–344.
- Reinhart, C. and K. Rogoff. 2009b.** *This time is Different: Eight Centuries of Financial Folly*. Princeton University Press.