GLOBAL FORUM ON URBAN AND REGIONAL RESILIENCE

Fall 2016 Seminar Series

"Bonding Bets: Unconventional Monetary Policy, Government Debt Management, and Pensions"

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Commonly the "pensions burden" is associated with rises in government debt in discussions about fiscal policy. Yet often neglected are the monetary policy dynamics that also underpin the debt-pensions nexus. In particular, a timely debate has emerged on how unconventional monetary policy (i.e., large bond purchases by central banks, known as quantitative easing) affect pension funds' performance. Because these funds invest heavily in government bonds, the lower yields associated with QE increase the value of the funds' liabilities and hence their deficits with a potentially negative impact on corporate dividends and stock valuations. The paper identifies and explains the connections between debt issuance and pension investments in the UK, tracking the debate on QE's impact on British pension schemes. It is argued that the co-dependence between government bonds and pension funds' investments is becoming more complex and politicized as a product of regulatory guidelines and government intervention in bond markets. This resonates with what the European Central Bank's president, Mario Draghi, has called the challenge of technocratic "independence in [policy] interdependence". A conclusion is that macroeconomic policy making, particularly QE-type interventions, must contend with the now more pressing concerns of aging populations with insufficient and increasingly volatile savings.

Global Forum on Urban and Regional RESILIENCE AT VIRGINIA TECH

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3:30 P.M. – 4:30 P.M.

*****Reception to Follow*****

Location: Global Forum Conference Room, Suite 312, Kent Square Building

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