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Reflections on Goodhart and Pradhan, “The Unanchored Central Banker”

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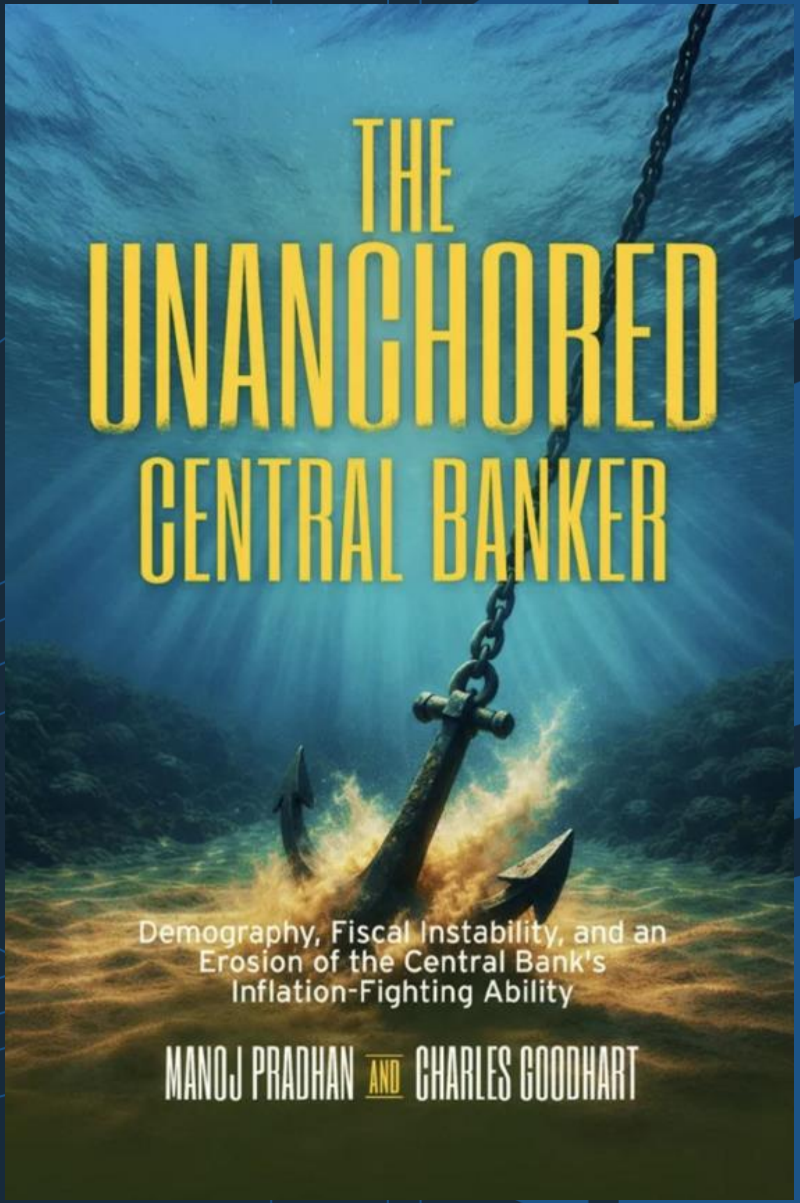
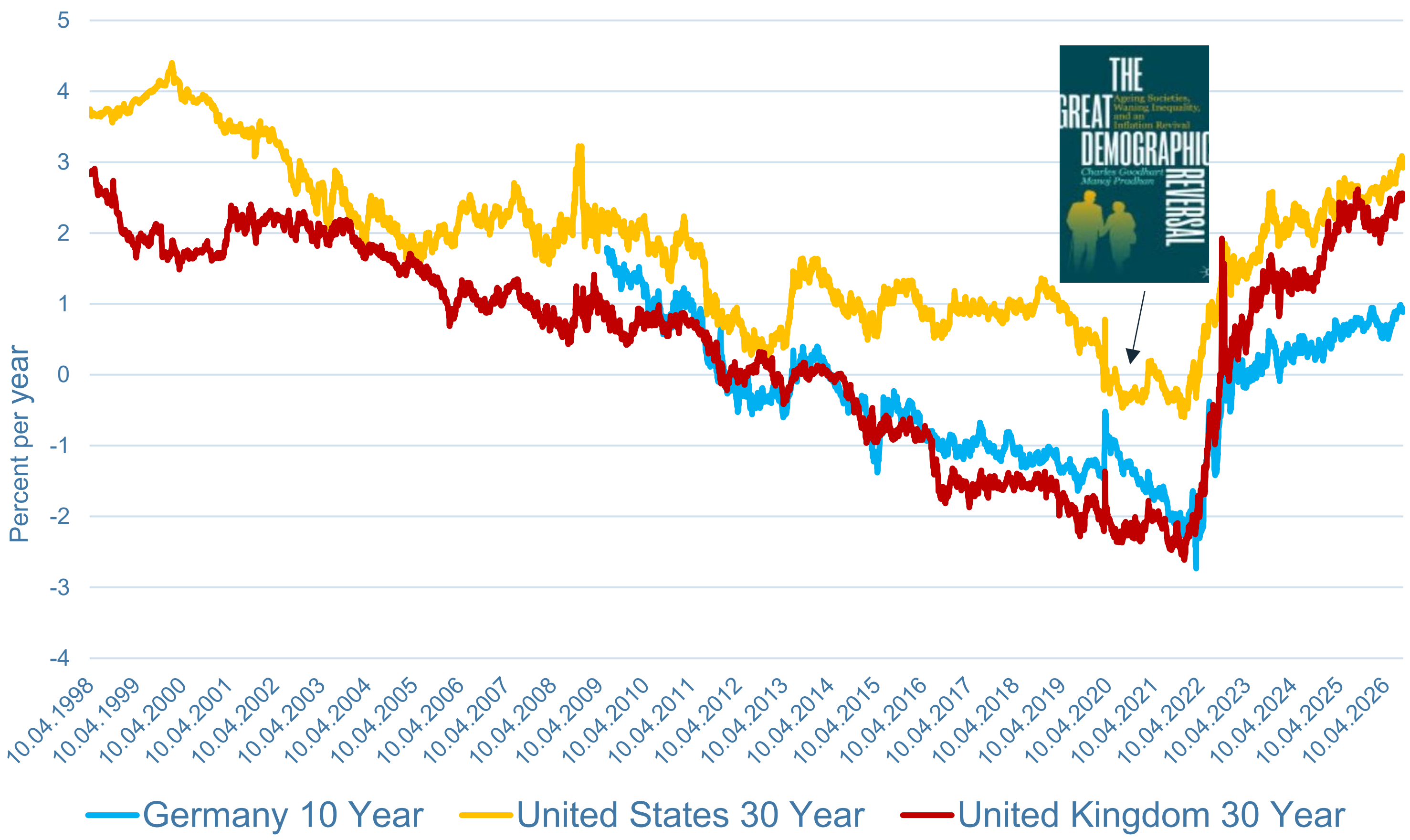


Long inflation-linked yields are sharply higher



~60 bp rise in US 30-yr inflation-linked rate since end-2024; similar rise for UK

What changed over 6 years?

- Not so much the demographics, which are highly predictable, but:
  - Global COVID recovery
  - Greater fiscal pressure and ongoing dysfunction – globally
  - Geopolitical tensions and fears, from Ukraine to China to Trump
  - Higher extinction risk nowadays?
  - Greater international fragmentation – trade and industrial policies
  - Increasing populist/nationalist ferment – pressure on institutions
  - The AI boom
- With all that, the US long real rate is "only" at the level of mid-2002 – amid what was famously called a "global saving glut"

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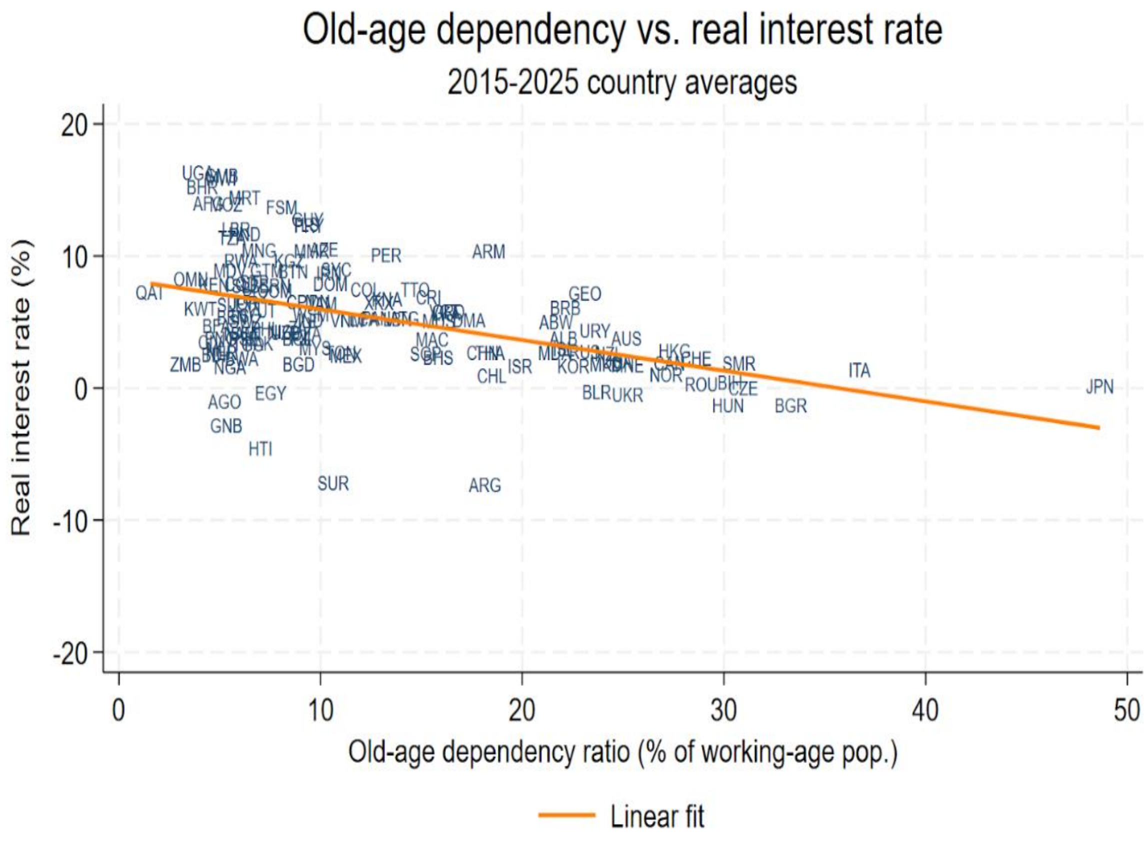
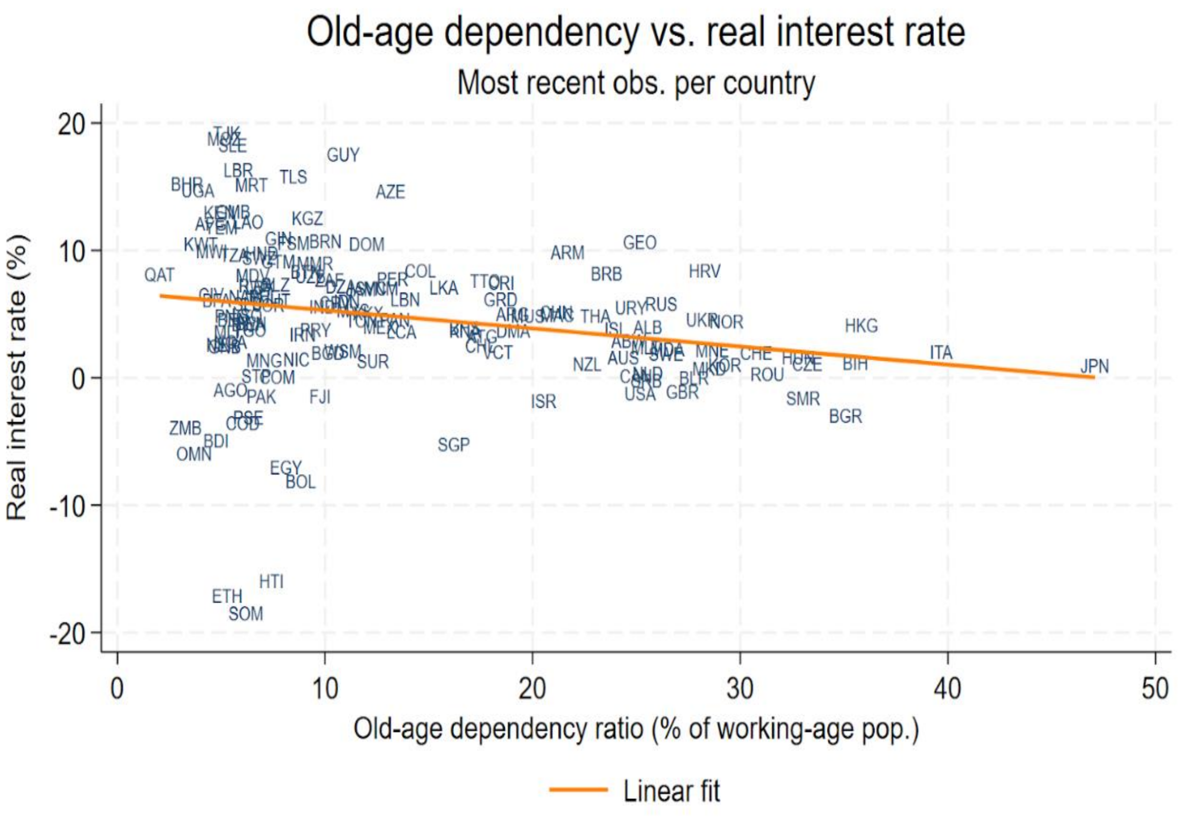
Aging people's health is/will be critical, but there are still powerful downward forces

- For the private sector, most theoretical models suggest that (all else equal), longer retirement periods lead to a higher capital stock, lower marginal product of capital
- Housing an important part of wealth, but authors' argument doesn't convince me
- Inequality? An important theme but evidence and theory unclear
- Lower growth of population may ultimately lead to lower investment demand, less R&D and productivity growth
- However, undisciplined public debts appear even more of a problem now than they were in 2019, with mandatory spending programs under more evident stress
- Authors are clearly right that deteriorating health of the aged, with fewer children to care for them, is a first-order issue in projecting future public finance burdens
- Without other demographic forces, real rates would be even higher now

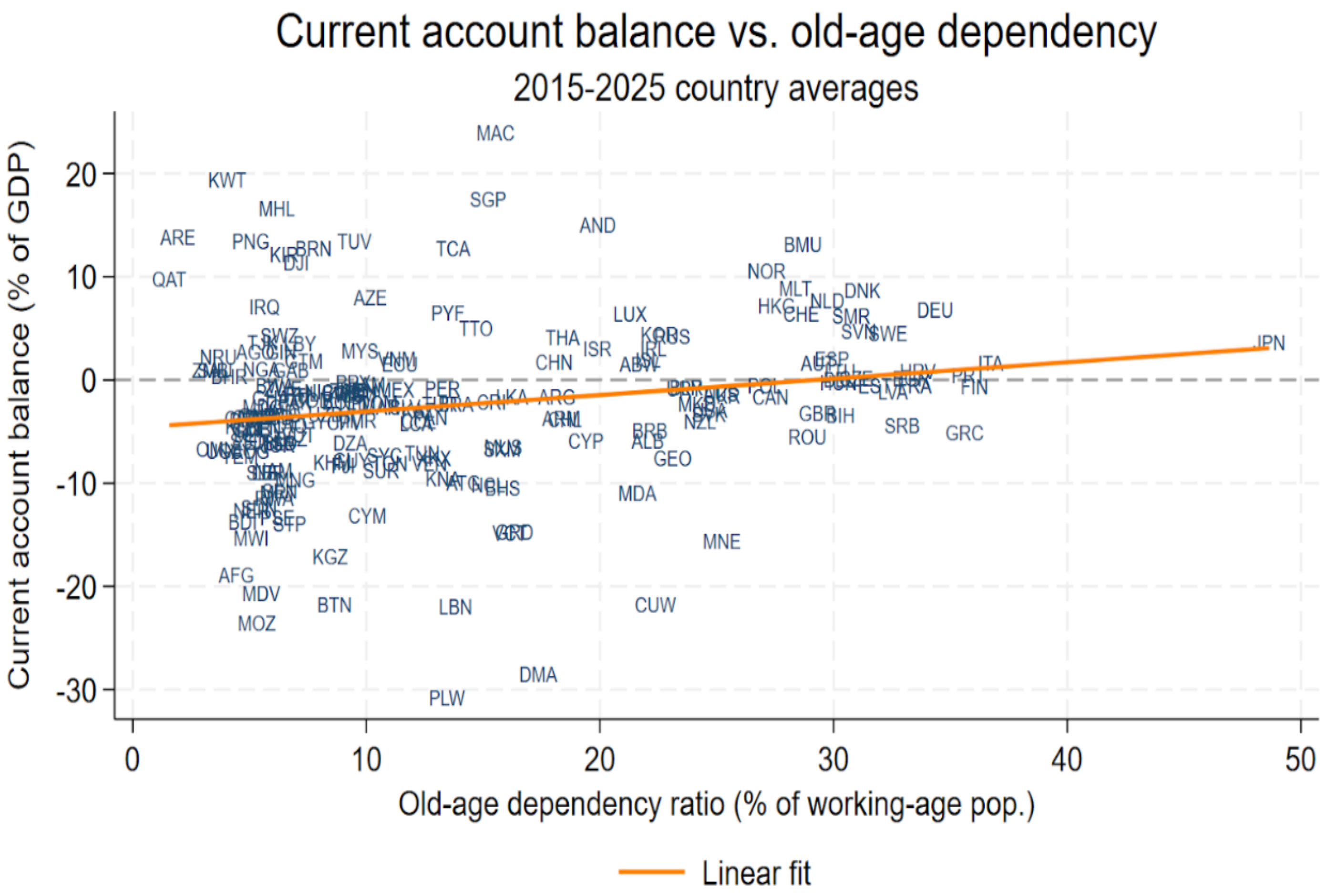
Cross-sectional dependency/real rate nexus





Source: World Bank Open Data

Due to stronger *S and* weaker *I*, raising *CA*



See also structural studies such as [Gagnon and Agrawal](#) (July 2026)

Source: World Bank Open Data

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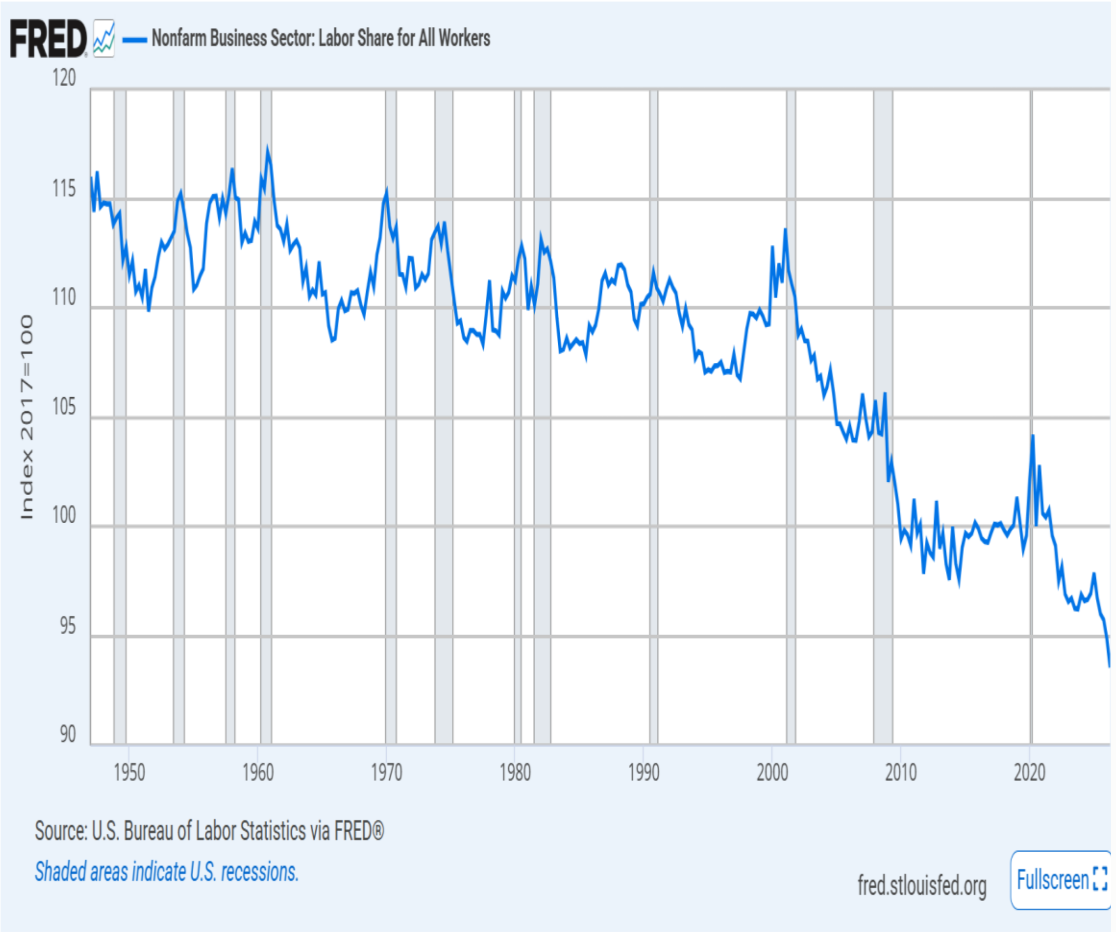
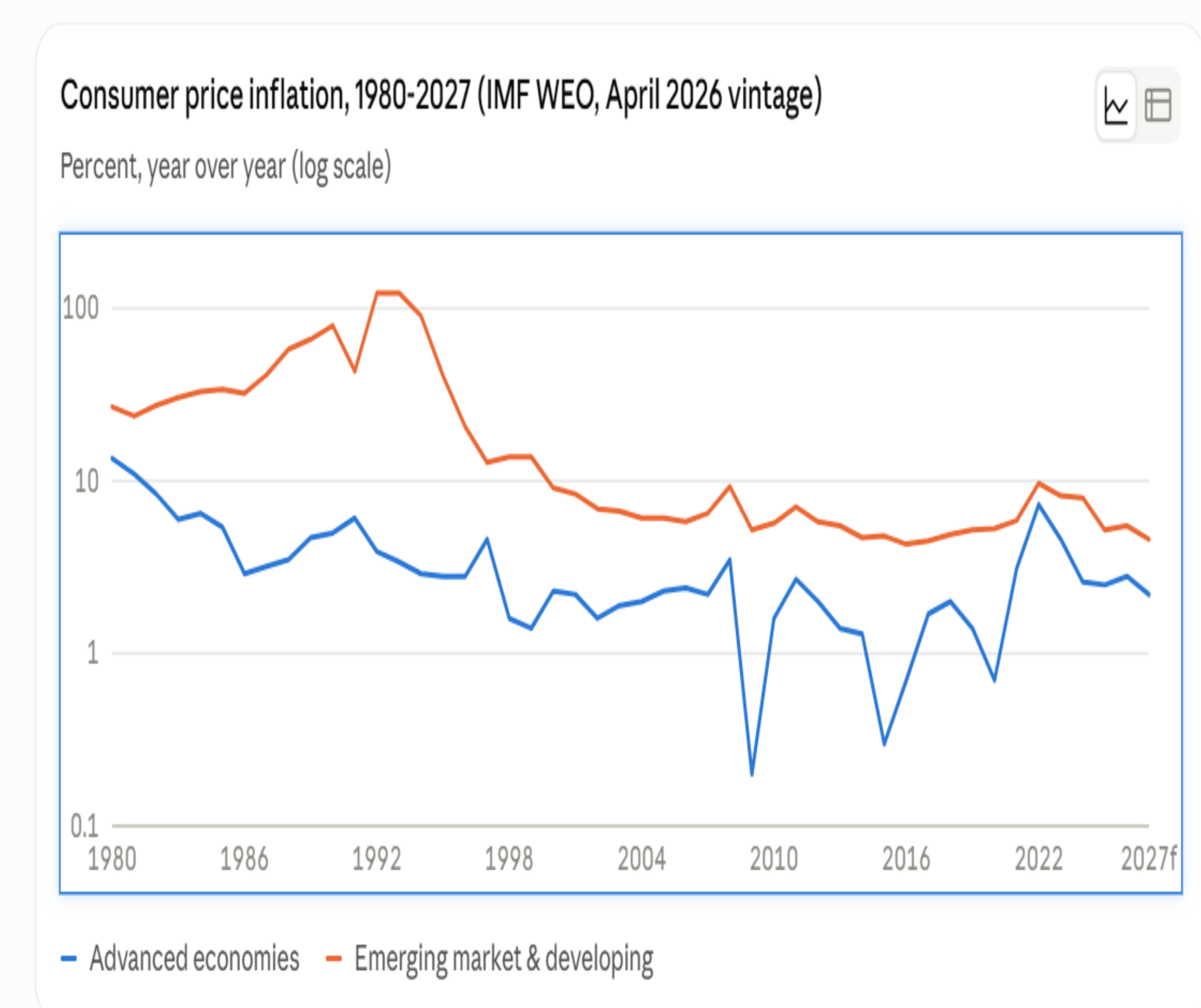
1990-2008 was uniquely benign, but China's role should not be overstated

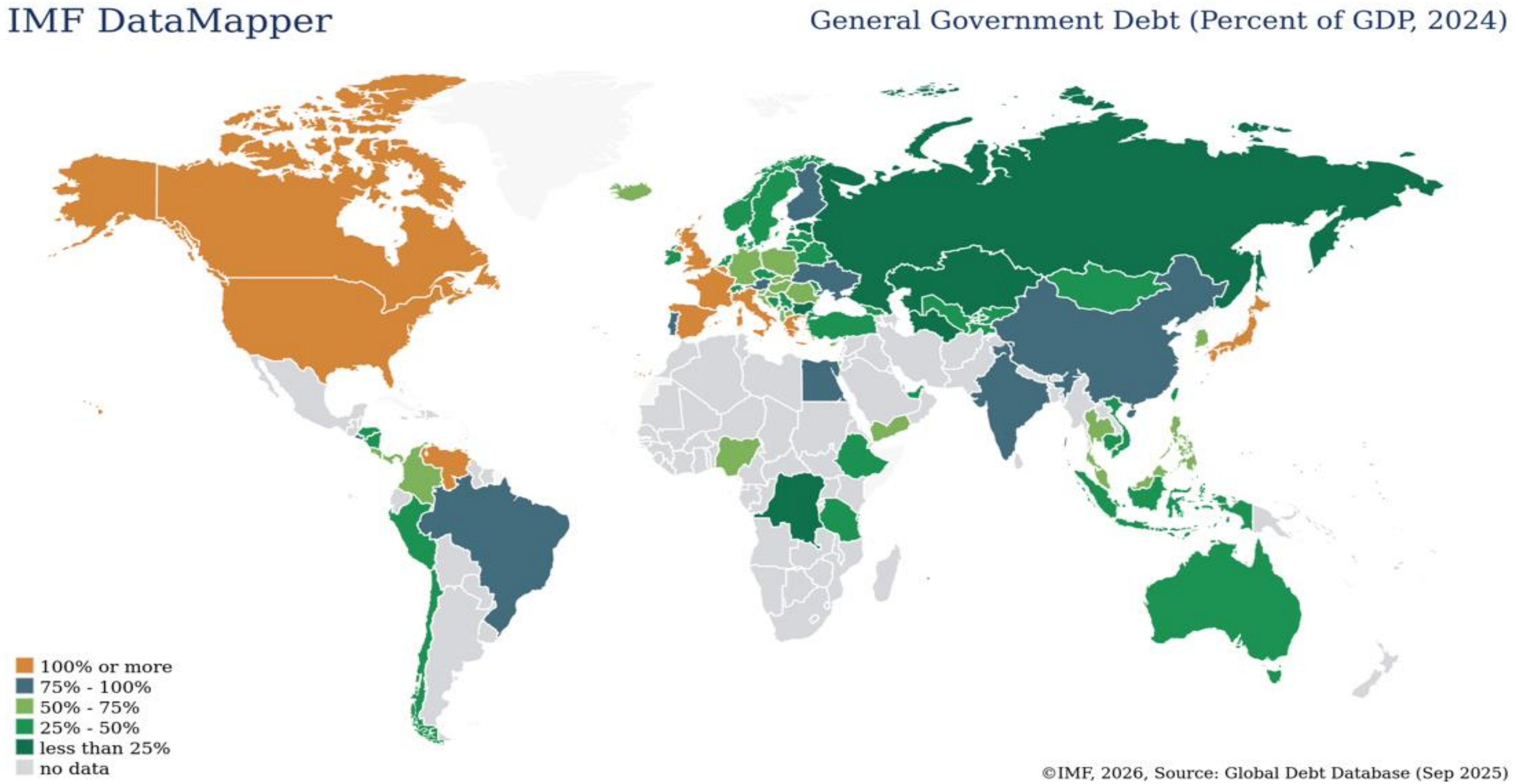
- World labor force effectively doubled by 2000, reducing bargaining power of labor globally (theme of Goodhart-Pradhan 2020).
- End of the Cold War created an unprecedented environment of stability and US hegemony that supported globalization, production efficiency, even some fiscal consolidation (storing up problems for later)
- China was important, but not everything
- By the latter 2000s up until the crisis, inflation pressures emerged -- in part driven by Chinese development and demand
- In summer 2008, we were all talking about global inflation

US labor share and global inflation rates





$r - g$ no longer affords much comfort



Authors are correct to think sustainability will worsen, with price stability a casualty

- Auerbach and Yagan (2025): US Congress no longer responds to projected fiscal deficits after 2003, unlike earlier
- The situation is dire as well in many other AEs (UK, some in W. Europe, Japan)
- When public debt markets buckle, price support operations for public debt will be justified as market functioning purchases – *private* debts could also be an issue
- In the US, hints already in Bessent's Treasury support operations, as well as floating of expanded swap lines
- Proposed guardrails on such operations unlikely to withstand political forces of fiscal dominance
- Government pressures for low interest rates in US, Japan, are telling

What might the outcomes be?

- Generational resentment is high – entitlement programs for the aged are not untouchable, and service quality could deteriorate
- A "natalist tax" that raises population growth may also lead to higher interest rates; why not just tax everyone to subsidize childcare?
- Plus, bigger populations are environmentally worrisome absent a carbon tax
- QE cannot nearly solve fiscal problems of the magnitude we see; financial repression more likely, and open or disguised default is not ruled out
- What the authors propose is EM-style finance based on seigniorage; but the real seigniorage yield is limited by a Laffer curve and risks accelerating inflation
- For the US, stablecoins could transfer a significant source of seigniorage – US currency residing abroad – to the private sector

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Thank you.

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