Vital Signs is a weekly economic wrap from UNSW economics professor and Harvard PhD Richard Holden (@profholden). Vital Signs aims to contextualise weekly economic events and cut through the noise of the data impacting global economies.

This week: RBA Governor Glenn Stevens isn't buying the secular stagnation theory, lending weight to the deficit hawks.

I thought the RBA minutes would allow me to write one of these "thread-the-needle" columns where I parse words and interpret market reactions to reaffirm conclusions I have previously reached in this column.

Boy, was I wrong.

I could have done just that with the RBA minutes, but then governor Glenn Stevens gave a speech that blew it all away.

Recall that I have been saying for over a year that Stevens seemed to buy the "secular stagnation" argument, most forcefully put recently by former US Treasury Secretary Larry Summers.

According to that argument, advanced economies like Australia face an extended period of anaemic growth because of a global imbalance between savings and investment opportunities.

Stevens gave numerous hints that he bought this argument, and was willing to cut interest rates in response, but would also be in favour of more aggressive fiscal policy responses.

Then, he said this week:

"I struggle to accept that today, to an extent virtually unprecedented in modern history, ingenuity, technological development, entrepreneurial drive and opportunity for improvement are so weak – so unprecedentedly weak – and people's desire to defer gratification so strong, that the equilibrium real rate of interest is actually going to be negative over an extended period."

The translation couldn't be clearer: "I think there are going to be lots of productive investment opportunities to soak up the global savings glut."

Perhaps this is a cry for help. Or an exasperated central banker hoping that "it just ain't so".

But if (and that's unclear) this is going to the RBA view going forward then we should all be worried. It will lend weight to the deficit hawks in Australia, detract from the impetus for infrastructure spending, and create further uncertainty about interest rate policy.

I have repeatedly lauded governor Stevens for his steady hand and wise approach. Now he has boldly chosen the polar opposite view from one of the greatest economic minds of our generation in Summers, and others like Paul Krugman and Ben Bernanke (not to mention Fed Chair Janet Yellen) who basically concur.

But this call is not brave. It's not crazy brave. It is very, very, likely wrong. And just as dangerous.

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Read more http://theconversation.com/vital-signs-governor-glenn-stevens-drops-the-ball-58222