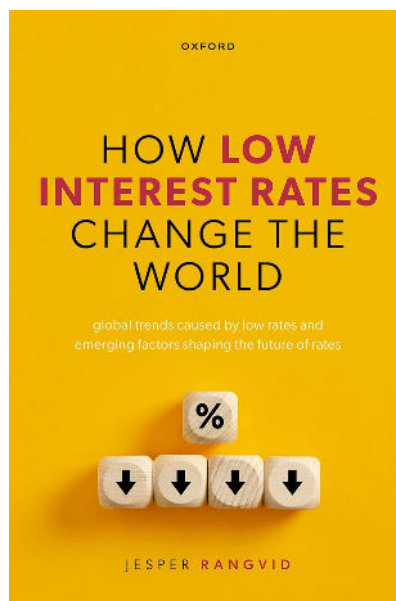




By Henrik Kraft Scharling

Christmas is a time for broader reflection...

For many, the Christmas season offers a mental reset, a quiet space where we revisit and reconcile the impressions that never fully settled during the autumn. It recalibrates our understanding of the present and shapes how we prepare for the future. Successful strategies rest on insight, not merely on memory.

But in a world overflowing with data, interpretation becomes uncertain. We cannot absorb everything ourselves, and relying on answers from LLMs is risky, cf. Scharling (2025). This is why well-crafted, analytical books remain our best intellectual tools.

...and here interest rates are a central starting point

Interest rates function as the financial system's barometer. They are the price of risk, above all, the price of time. Rates reflect the market's assessment of the economy's underlying rhythm, expectations, risk appetite, and trust in the future. Likewise, yield spreads express the perceived differences in risk and quality across assets. In this sense, interest rates are influenced by almost all forces shaping the economy and our collective expectations.

Jesper Rangvid's book on the impact of falling interest rates since 1980 is therefore also a book about what has shaped Denmark and the world over the past four decades, and why. It is, in turn, a basis for preparing for the future.

Today, this is a highly topical subject. In the U.S., for instance, a political drama is unfolding as President Trump seeks influence over Federal Reserve interest-rate decisions.

The 1970s prelude to the long decline in rates...

The book focuses on the effects of the nearly uninterrupted decline in interest rates since the early 1980s. Implicitly, it is also about what might cause rates to rise again, and what would then be at stake. To understand that, we must revisit the path leading to 1980.

After World War II, most advanced economies experienced prolonged and robust economic growth. Favorable demographics, rapid technological development, the absence of major wars, political stability, the rule of law, and increasing globalization and specialization strengthened

broad confidence, and thus the credit foundations of investment. But by 1970, the limits of this growth were approaching. Full employment, dependence on oil, and rising private debt had made economies vulnerable even to small shocks.

The newly appointed Chairman of the Federal Reserve, Arthur Burns, believed that securing financial stability (the Fed's first mandate) required maximizing the Fed's second mandate: full employment. In practice, he equated this with high economic growth, helped along by President Nixon's public pressure ahead of his re-election campaign. Burns therefore kept interest rates artificially low.

...was an inflationary spiral from economic overheating

The result was an overheated economy that pushed inflation expectations sharply higher. When the oil price shock hit in 1973, it triggered the deepest U.S. recession since the 1930s (1974-76). Inflation and interest rates fell from 1974 to 1977, but only to levels still higher than before 1972. This decline led Burns and the Fed to conclude that inflation had been caused almost entirely by the oil shock. Monetary policy was eased substantially, underestimating the demand-driven component of inflation, the expectations spiral. This overstimulated the economy, causing inflation to return even more forcefully after 1977.

In 1980 a new monetary paradigm with declining rates started...

By 1980, sentiment changed abruptly. The U.S. (and the world) faced an unchecked inflation-expectations spiral. Paul Volcker, Burns' successor, viewed inflation as the greatest economic evil. The Fed's mission, as he saw it, was to stop the monetary roots of the expectations spiral through discipline and austerity.

Inspired by monetarism (Friedman), the Fed executed a shock increase in rates, to over 20% in 1980-81. Real rates reached +6%, rewarding saving over borrowing and sharply slowing the economy. The price was a deep, prolonged recession, but the expectations spiral was broken. From that point onward, a clear hierarchy has guided Western central banks: price stability before full employment and short-term growth. This shift, unwelcome to many political leaders, forced several central banks to defend their independence in the years that followed.

The present dispute over President Trump's influence on Fed policy has deep historical roots, well-remembered by central bankers. Since 1980, there has been a strong correlation between low rates and the degree of central-bank independence. Thus, many today emphasise the importance of independence (see e.g. Lagarde 2025; Nagel 2025; Tombini 2025).

Central banks have significant influence over long-term real interest rates, and markets have increasingly priced in this influence. For instance, declines in long-term rates often occur around Fed policy meetings (Hillenbrand 2025). Forward guidance thus becomes self-fulfilling because the institution is perceived as competent and independent.

...with increasing debt and rising asset prices

Rangvid highlights five major developments since 1980:

- Debt in advanced economies more than doubled, from 135% of GDP (1980) to 300% (2020).
- Real house prices doubled or tripled in most countries.
- Equity market valuations soared, in the U.S., market cap rose from 50% to 250% of GDP (1980-2020), today further accelerated by the AI boom.
- Income and wealth inequality increased sharply.

- Financial risk appetite surged, broad-market leverage (margin debt) is at record highs. This is an expression of great trust in the future but is also an expression of that equities are expected to produce a higher yield than debt.

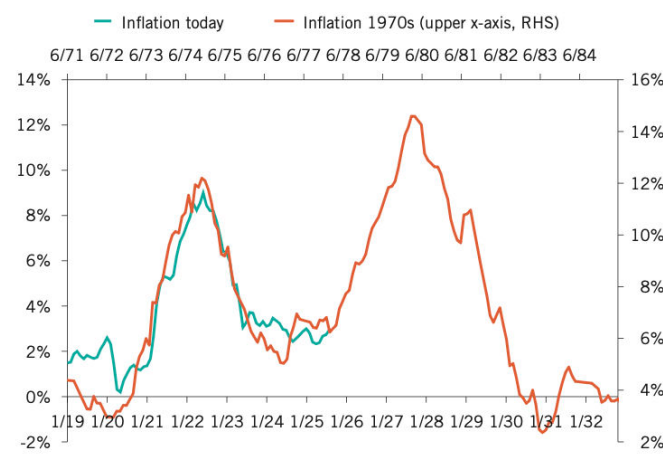
These dynamics reinforce each other: leverage amplifies gains when prices rise – and losses when they fall.

What therefore happens if interest rates rise again, or stay elevated?

The book includes a central figure comparing the inflation paths of the 1970s and today, cf. figure 1. Their overlap raises difficult questions:

- Are we at risk of repeating the 1970s?
- Has oil dependence simply been replaced by dependence on AI hardware and rare earths?
- Did the Fed and U.S. government overstimulate during COVID (2020–22)?
- Will Trump's revival of McKinley-style tariff wars raise U.S. inflation, and thus rates?
- Are policymakers underestimating households' inflation expectations?
- What is the economy's hidden pulse, today's "natural rate", in other words?

FIGUR 1: Inflationens forløb i 1970erne minder om i dag

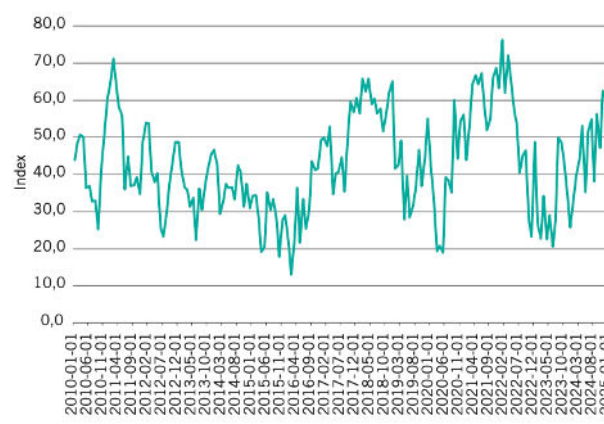


Kilde: Rangvid (2025).

Rising rates would have far greater impact today

Fed macro-models show increasing upside risks to inflation, cf. Figure 2.

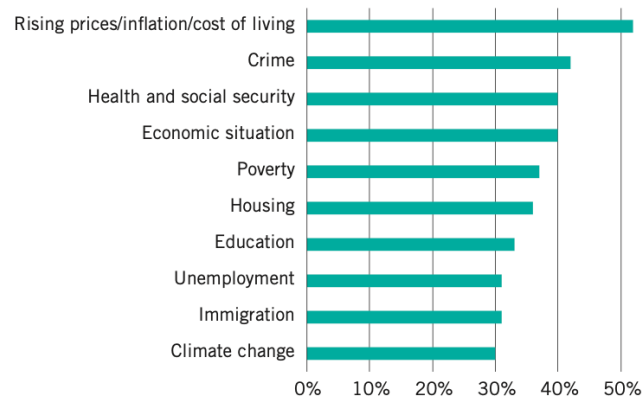
FIGUR 2: Inflationen er i risiko for at blusse op igen



Note: Future Prices Paid; Diffusion Index for Federal Reserve District 3: Philadelphia, Index, Monthly, Not Seasonally Adjusted Index. Kilde: Federal Reserve Economic Data, Federal Reserve Bank of St. Louis.

Markets show the same, for example, the 2-10 year yield spread. Finally, american consumers today rank inflation as their top concern even though Crime normally is the top concern, cf. figure 3.

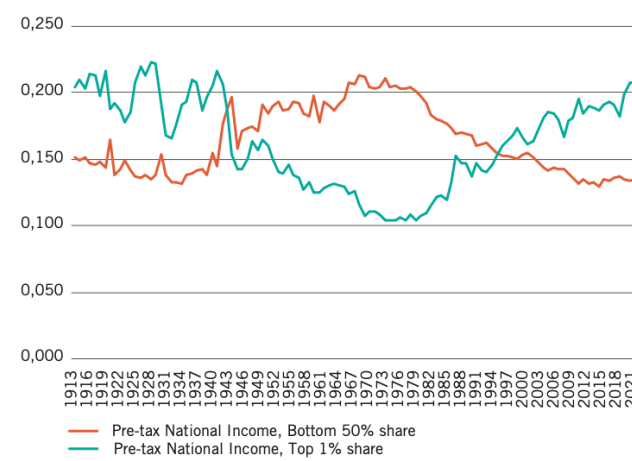
FIGUR 3: I dag er inflationen amerikanernes største bekymring



Note: Survey: What Americans worry about. Share of U.S. respondents who rank these issues among the most important for their country out of 18 surveyed. 60,000 U.S. respondents (18-64 y/o) surveyed Oct. 2024-Sep. 2025. Kilde: Statista Consumer Insights.

This is worrying because consumers typically overestimate inflation (BIS 2025). Elevated concern risks creating a self-reinforcing cycle of rising inflation, and rising rates. Today's U.S. economy is also more fragile than in 1975. For as mentioned above the total debt levels are several times larger. Furthermore, one in four Americans has sub-prime credit quality (Sløk 2025), and the income inequality is near the 1929 levels, cf. figure 4.

FIGUR 4: Indkomstuligheden i USA er nu på niveau med 1929



Note: Indkomstspredning i USA jf. World Inequality Database (www.wid.world).

This combination heightens the systemic risk for domino effects should a U.S. recession incur. COVID showed how quickly U.S. firms can adapt payrolls: unemployment jumped from 3.5% in February 2020 to at least 14.7% in April.

Globalization ensures that U.S. shocks quickly transmit elsewhere, including Europe. U.S. equity markets account for nearly half of global market value. The world is deeply interconnected.

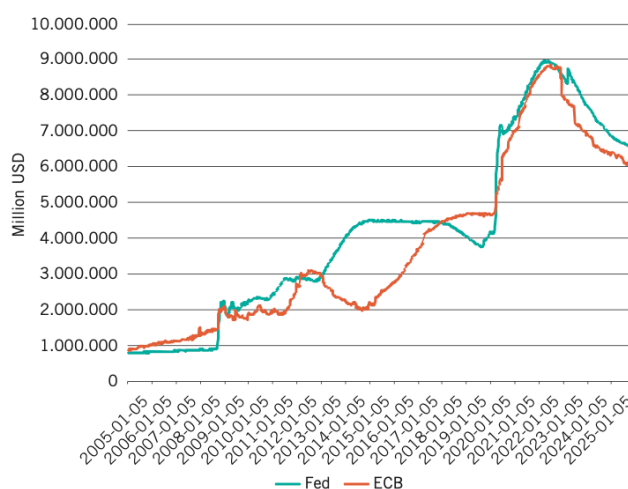
Do central-bank crisis responses risk inflating asset bubbles?

A core point is that asset bubbles emerge when monetary policy is too loose for too long, especially when rates sit below the natural rate (BIS 2025/2). The unorthodox tools used since the financial crisis, negative rates, QE, may have had only limited real-economy effects but instead has inflating the asset prices.

The scale of monetary stimuli has been immense. The Fed e.g. injected USD 8 trillion (2009–2022), equalling 27% of annual U.S. GDP. During the same period, the ECB added another USD 7 trillion.

What therefore happens, when central banks reduce their balance sheets again? Since May 2022, the Fed and ECB have reduced their balance sheets by a combined USD 5.5 trillion, equivalent to 5% of global GDP, cf. figure 5.

FIGUR 5: Hvornår fører QT til risiko for finansiel stabilitet?



Note: Total balances for Fed and ECB. Kilde: FRED – Federal Reserve Bank of St. Louis.

This has so far primarily reduced banks' daily re-lending to central banks (Reverse REPO).

- But when will liquidity supply and demand meet again?
- How much can bid-to-cover fall, and spreads widen, before financial stability is at risk?
Increased spreads risk triggering insolvency waves starting in the junk market. This will affect ventures and growth companies.
- Are central banks willing to re-expand balance sheets massively if it fuels new asset bubbles and thereby restricts future generations from acquiring assets?

Central banks may be more cautious in the future...

The rate spikes of 2020–22 left many central banks technically insolvent from losses on bond holdings (Rangvid 2023). For an issuer of money, this is in the short term primarily a technical accounting issue.

Trust is however a central bank's most valuable asset, and in the U.S this became a political platform for critique of the Fed's competence. Higher rates also drove up fiscal deficits in all countries with public debts. This reduced governments' policy space and thus politicians' potential for politics.

Central banks have no desire to relive this. Could it thus be in the interest of some central banks to slowly puncture asset bubbles? Could it be advantageous with low to moderately elevated

interest rates for an extended period? Could crisis stimulus thus be quantitatively smaller and for a shorter period of time? How long sighted dare a central bank act?

...for the long-term credit foundations are slowly eroding

Interest rates are a fundamental expression of the price of risk, see IMF (2019). The credit foundation for the interest rate drops since 1980 were therefore advantageous demographics, high technological development, political stability, rule of law, the absence of major wars and rising globalisation and specialisation.

There is a deep trust that this will remain. The real interest rate has e.g. not jumped even though we have over the later years seen:

- Rising geopolitical conflicts like the Ukraine war (risk of rising food and energy prices) and rising tensions like Taiwan (global AI risk) and the South China Sea (e.g. global freight risk).
- Global investment needs for climate transitions must near USD 6-7 trillion annually to keep the COP21 climate goals within reach.
- The U.S. has embarked on a protectionist and partly isolationist strategy (MAGA) since the start of the year. This forces other developed countries into e.g. costly re-industrializations and resource extraction. This all counters the global specialization that drove increasing efficiency and productivity since 1980.
- Developed countries increase their defence spending from between 1% and 2% of GDP towards 5%.
- Developed countries face increasing demographic shifts toward retirement. This will dampen consumption and lead to dissaving.

Can these trends continue without significantly raising the real rate? Does the market simply expect AI to deliver offsetting productivity gains, cf. Acemoglu (2025)? Is it alternatively an expression of that trust moves in sudden “ketchup moments”? Could even a mild U.S. recession trigger this, cf. BIS (2025/4)? How aggressively will central banks intervene during instability, cf. Rogoff (2025)?

There are no simple answers. Finance is ultimately rooted in collective belief. Money e.g. only has value because we collectively believe in it. Markets therefore move because investors believe in increasing growth, or the opposite. Economy is not merely a question of belief, but without trust economy can not exist.

Why read Jesper Rangvid's book?

The book is published at a time when people's search for knowledge is rapidly shifting toward AI systems such as ChatGPT. Here we receive answers rather than “just” information. It is efficient and convenient. So why read an entire book about a subject as complex as interest rates instead of simply asking ChatGPT a few questions?

First, we need to accustom ourselves to being increasingly skeptical toward answers from LLMs. Their responses are (still) based on statistical models of knowledge bases, and therefore they often weight what is average more highly than what is most accurate or fact-based.

But moreover, it is important to remember that the brain is a muscle that must be maintained. When answers are served to us, the ability for independent thought gradually diminishes, cf. Scharling (2025/2). Therefore, books can still offer a form of edification that encourages critical thinking and insight.

Here, Rangvid's book excels. Care has been taken with the language, the content, and the structure, and the book is well-documented and richly illustrated, including with scenarios.

Likewise, the political framing keeps the focus sober and objective. The complex is made simple without being oversimplified.

Because serious reflection requires serious knowledge

The book is therefore about more than “just” the economic effects of monetary policy. The world is interconnected, and therefore, for example, Danish consumers’ purchasing power will be affected when the United States launches trade wars or if politicians gain influence over the Federal Reserve’s monetary policy.

Rangvid’s book is thus relevant reading for all who are interested in society and for decision-makers, including politicians. In this context, Rangvid shows how the low interest rates in Denmark shaped both the mortgage-credit structure and the pension sector, and how the fixed-exchange-rate policy toward the euro functioned as a disciplining anchor in Danish economic policy.

Should we be concerned about new interest-rate increases and inflationary waves? Yes, absolutely, but a major correction or crisis is not necessarily imminent. However, when the foundations of trust that underpin low interest rates shift, the risk increases that the interest rate will stabilize at a higher level. In the long run, there may even be advantages to this. But as with all risks, planning can limit the worst effects.

Mark Twain wrote that *“History doesn’t repeat itself, but it often rhymes.”* This applies to the economy and to the way we understand it.

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