

Japan and the World Economy: Challenges over the Coming Decade

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Hugh Patrick, Glenn Hubbard, Joseph E. Stiglitz, David E. Weinstein, Takatoshi Ito

Hugh Patrick, director of the Center on Japanese Economy and Business (CJEB) at Columbia Business School (CBS), provided opening remarks for the symposium “Japan and the World Economy: Challenges over the Coming Decade,” noting that the event was being taped for broadcast on NHK World on May 1 and 2, 2015.¹ The event, which occurred at Columbia University’s Italian Academy on April 6, included an illustrious panel featuring Glenn Hubbard, dean and Russell L. Carson Professor of Finance and Economics at CBS; Takatoshi Ito, professor at Columbia University’s School of International and Public Affairs and associate director of research at CJEB; Joseph E. Stiglitz, University Professor at Columbia University; and David E. Weinstein, chair of the Department of Economics at Columbia, Carl S. Shoup Professor of the Japanese Economy, and director of research at CJEB. The event was divided into two sessions: fiscal and monetary policy, and structural reform. Professor Patrick moderated the symposium.

¹ Details at <http://www.nhk.or.jp/globalagenda/02.html>



Takatoshi Ito

front, Japan is weighted down by a large debt burden, with a debt-to-GDP ratio in excess of 240%. Japan is attempting to raise taxes, cut spending, and stimulate higher growth in order to balance its budget. However, at their current levels, these measures may not be sufficient to solve Japan's fiscal problems. In conclusion, Professor Ito remarked that, while Japan has made great progress under its stimulative monetary and fiscal policies, challenges still remain.

Professor Ito spoke first, discussing the present state of Japan's monetary and fiscal policies. He noted that the stock market has more than doubled and the yen has fallen from 80 to 120 against the U.S. dollar since Prime Minister Shinzo Abe took office. In addition, the economy has overcome deflation, but has yet to achieve the two-percent inflation rate target. Despite this initial monetary policy success, Japan faces secular stagnation as it has low interest, inflation, and growth rates. On the fiscal



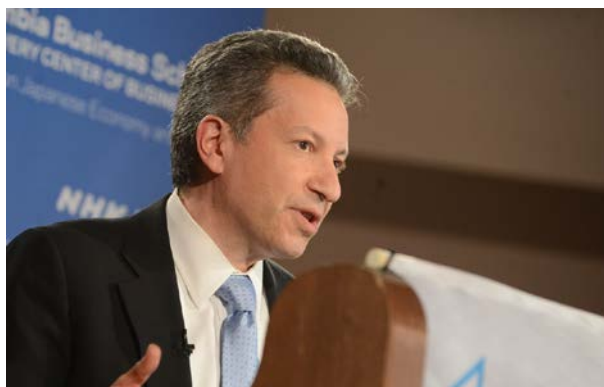
Glenn Hubbard

categorize economic events into three categories: known knowns, known unknowns, and unknown unknowns. Finally, Dean Hubbard referred to a question the Queen asked at the London School of Economics, "Why did no one notice [the 2008 credit crunch]?", as a vehicle to discuss secular stagnation, short-term versus long-term growth-oriented policies, and the balance between fiscal and monetary policy.

Dean Hubbard spoke next about economic growth by referencing The Grateful Dead, Donald Rumsfeld, and the Queen of England. Comparing the aftermath of the financial crisis to the song, "What a Long, Strange Trip It's Been," Dean Hubbard provided a broad perspective on how the developed world's policy response to the crisis could have been improved. He then related the current economic environment and future outlook to Donald Rumsfeld, who is known to

Professor Patrick then invited the other panelists to comment on Professor Ito and Dean Hubbard's remarks. Professor Stiglitz remarked on the balance between monetary and fiscal policy, noting that economic growth in the developed world has been overly reliant upon the former, resulting in an ineffective response to the financial crisis. He then added his view on how fiscal policy could be utilized to overcome Japan's current structural and societal challenges. Professor Weinstein responded with an alternative view, describing how currency devaluation through monetary policy has resulted in lower labor costs, higher profits, and lower unemployment in Japan. The long-term conditions for the higher inflation and growth that Japan seeks are in place. He also clarified the debt situation, noting that most of it is held

domestically. Though the debt-to-GDP ratio is high, Japan's burden is not as onerous as other countries with similar debt levels. Continuing on the theme of Japan's debt and the taxes necessary to service it, Professor Patrick prompted the panel to discuss fiscal policy. Professor Stiglitz used the United States as an example, stating that the current tax system is regressive and that a rebalancing could improve the current fiscal outlook. Dean Hubbard responded with the idea that reducing future expenditure is the key driver for improving the fiscal outlook. Professor Ito noted that monetary policy in Japan has been effective. However, he added that the debt situation in Japan does require a long-term fiscal solution. The panelists concluded the first session by sharing their views on fiscal policy within the context of entitlement spending and investments in education, technology, and infrastructure. How countries balance the two competing objectives can create challenges or provide an impetus for growth.



David E. Weinstein

Professor Weinstein opened the second session with a discussion of Japanese structural reforms focused on productivity growth. The first reform, liberalization of the agricultural sector, could contribute to higher productivity through lower food prices and higher consumption. Professor Weinstein next discussed the employment of women, using the United States and Japan as comparative cases. Research suggests that 20-30 percent of U.S. productivity growth over the past 50 years is attributable to the

elimination of gender and racial employment discrimination. Japan could experience similar productivity gains through the promotion of gender equality in its workforce. Professor Weinstein also described how liberal immigration policies have contributed to stronger productivity in the United States, noting that Japan could benefit from similar policies. Finally, Japan could reform its energy policy. In response to the Fukushima nuclear disaster, Japan has shifted away from nuclear power toward a greater reliance on fossil fuels. This shift has created public health problems from increased pollution and economic problems, as Japan must import dirty fossil fuel from abroad. With a revised energy policy, Japan could mitigate both problems and stem the productivity decline that arises as a consequence.

Professor Stiglitz next spoke on how structural reform can address inequality. Macroeconomic policies often interact with structural issues. In contrast to the United States, Japan pursues a tighter economy. As a result, wages will rise and inequality will fall as the economy recovers. Beyond macroeconomic policies, there are many drivers of inequality. Distortions in an economy, such as employment discrimination or policies that



Joseph E. Stiglitz

reduce employee bargaining power, contribute to inequality. In addition, weak competition policies in both the United States and Japan have contributed to inequality by allowing firms to dominate their sectors. Returning to the impact of structural reform on productivity, Professor Stiglitz said that productivity growth outstripped demand growth in the manufacturing sector, so that labor shifts toward the service sector. Markets do not manage this transition well, creating inequality. Japan needs to generate more productivity in its service sector, and the government should both foster and manage this transition. Professor Stiglitz concluded with a discussion of the Trans-Pacific Partnership (TPP), sharing his negative views on it; he believes that Japan should pursue structural reform on its own since the TPP may create problems in the future.



Joseph E. Stiglitz, David E. Weinstein, Takatoshi Ito

Following Professor Stiglitz's remarks, Professor Patrick prompted the panel to share their views on structural reform. Dean Hubbard first addressed Professor Stiglitz's comments on inequality, commenting that a focus on equal opportunity can reduce inequality. Turning to Professor Weinstein's comments on Japan, Dean Hubbard said that the United States could also benefit from more liberal agricultural and immigration policies. Professor Ito next discussed two areas where structural reform could improve productivity in Japan. Stronger corporate governance could improve capital efficiency, while a new labor policy could raise the percentage of females, foreigners, and the elderly in the workforce. Professor Weinstein followed, highlighting areas where he both agreed and disagreed with Professor Stiglitz's views on the TPP. He also discussed how Japan might consider raising the age limit for entitlements in order to boost the percentage of the elderly in the workforce, and policies aimed at reducing employment discrimination. Professor Stiglitz next responded to prior comments made about the TPP, labor discrimination, and corporate governance, and added his view that countries should pursue GDP growth that improves living standards as opposed to growth for growth's sake. Finally, Professor Ito shared closing thoughts on entitlement reform and agricultural liberalization in Japan. Professor Patrick concluded the panelist discussion and opened the floor for questions.

Question and Answer session

Not surprisingly, the Q and A session was lively, on a range of topics. One audience member inquired as to what was the biggest challenge for female leaders in the Japanese workforce. Professor Patrick suggested that the biggest challenge is transitioning women back into the labor force following maternity leave. Professor Weinstein followed, noting that companies are reluctant to invest in women because they believe that they will eventually quit. Women often quit because they do not often see females succeed and consequently do not see a future for themselves in companies. Japan could consider measures such as affirmation action, improved maternity leave, and mandatory paternity leave to tackle the problem. Dean Hubbard added that an improvement in corporate culture could also improve the situation.



CBS students Yoshihisa Shiraichi '16 and Chie Hosokawa '16 during the Q&A session

The final question came from an audience member who noted that Japan is probably ahead of the United States on the issue of parental leave. He asked what it would take to effect similar changes in the United States. Professor Weinstein clarified that structural reform involves what should be done and what will be done. The decisions come down to political will. He added that Japan likely possesses the will to ratify the TPP, reform its energy policy, and to liberalize its agricultural sector. However, immigration and gender discrimination reform will take time. The United States is still grappling with these issues today.

Professor Patrick provided closing remarks for the symposium, which was cosponsored by CJEB and NHK World.

