

Comments on Session III: Economic Policy under the Abe Administration

ESRI International Conference

“Toward Revitalization of the Japanese Economy: The Role of Policy in the
Global Economy”

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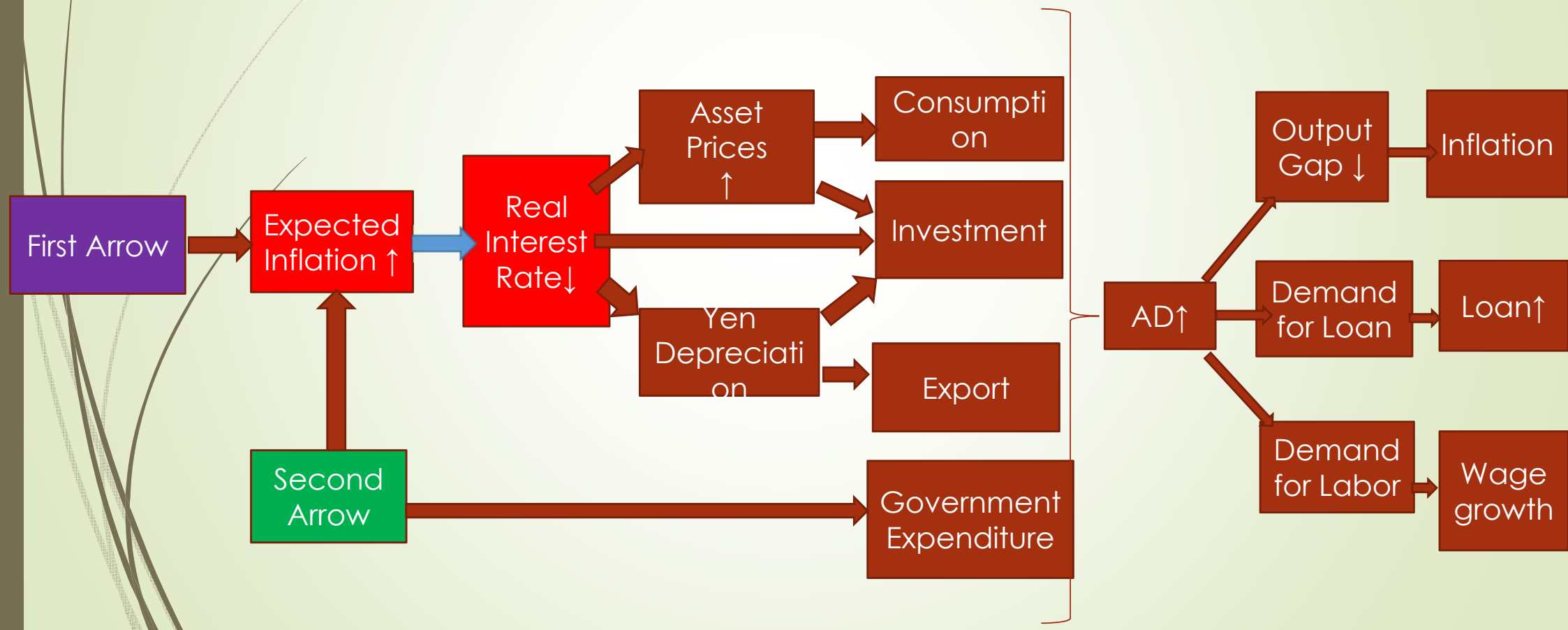
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What Happened: Regime Shift from Deflationary to Reflationary One

- ▶ Policy Regime Shift (Romer 2013)
- ▶ Deflationary Regime: The old LDP, DPJ, and the BOJ
- ▶ Reflationary Regime: The LDP under Shizo Abe and the new BOJ

How Abenomics Works



Increased Inflationary Expectation Mandel and Burns 2013

<http://libertystreeteconomics.newyorkfed.org/2013/04/japanese-inflation-expectations-revisited.html>



Risks to Nascent Reflationary Regime

- ▶ 1. **“Never was so much owed by so many to so few.”**
Institutional Instability
 - ▶ What happens after Kuroda?
 - ▶ Central Bank Independence is not the goal
 - ▶ Needs for the revision of the BOJ act of 1998
- ▶ 2. Adequacy of Inflation Targeting
 - ▶ Price level or NGDP level targeting?
- ▶ 3. Premature fiscal consolidation

Premature Fiscal Consolidation

- ▶ Facts
 - ▶ 1. 1997 tax hike: preceded by tax reduction
 - ▶ 2. After 1997, Japan experienced a full-fledged deflation
 - ▶ 3. 3 % consumption tax hike \Rightarrow reduction of real GDP growth 0.45% (Short-term macroeconomics model of ESRI, 2011)
- ▶ Issue: Will the nascent reflationary regime survive?
- ▶ Plans
 - ▶ A: postponement until Japan gets back to normal nominal growth rate
 - ▶ B: countermeasures: reduction in corporate and R & D investment taxes
 - ▶ C: strengthening inflation expectation: introduction of NGDP level targeting

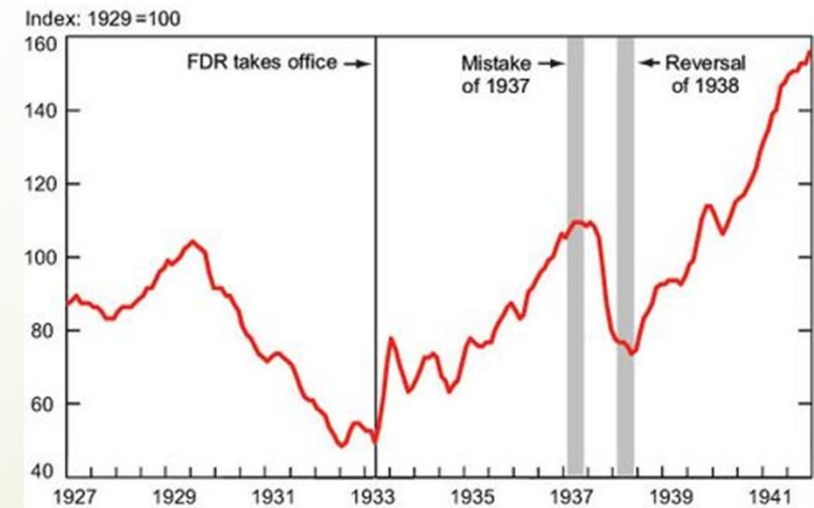
The Mistake of 1937

Prices in the Great Depression



Source: National Bureau of Economic Research, Macrobistory Database.

Industrial Production in the Great Depression



Source: Board of Governors of the Federal Reserve System.

Stock price behavior

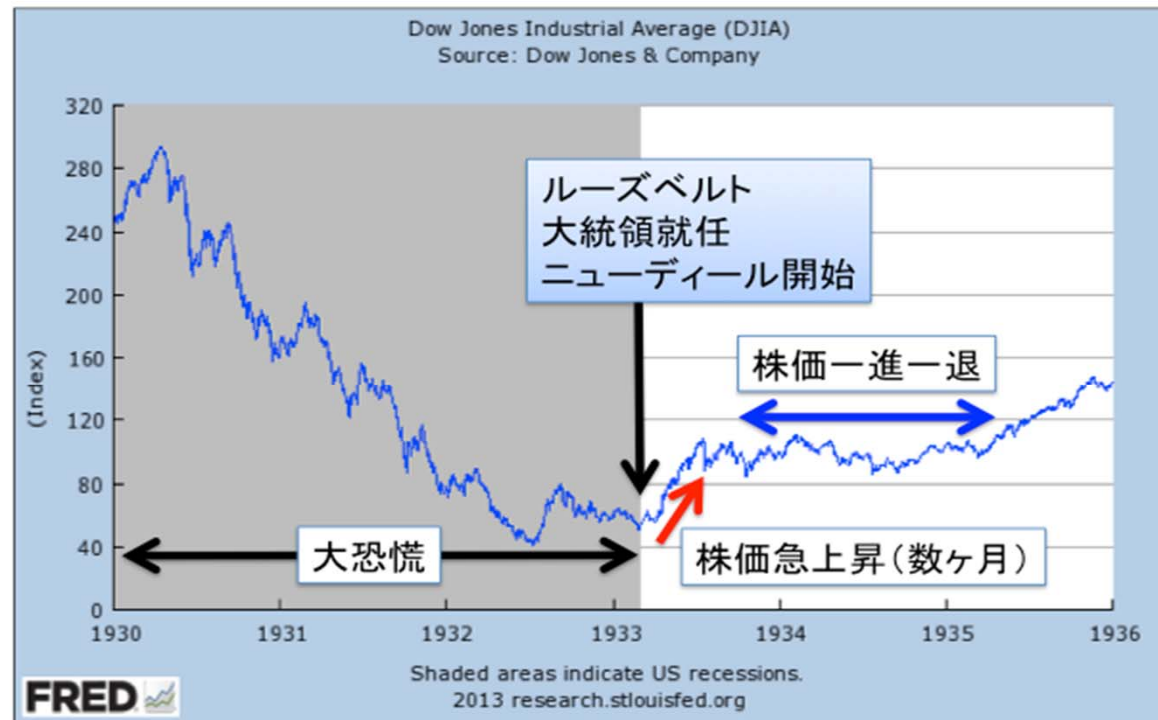
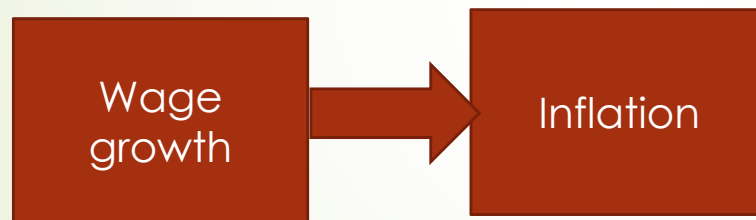


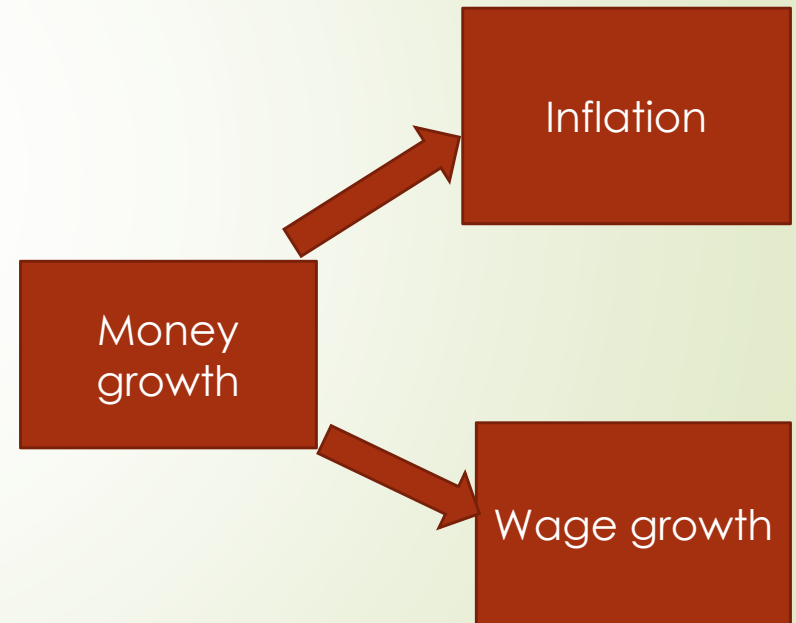
図1: 1930年代ダウ工業株平均株価指数(アメリカ)

Inflation and Wage growth

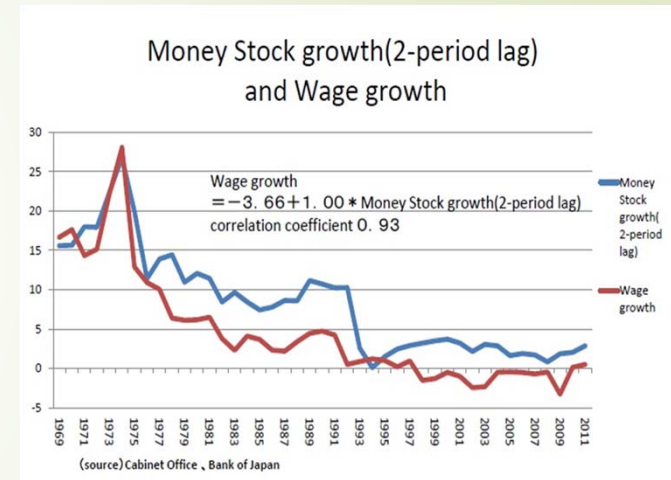
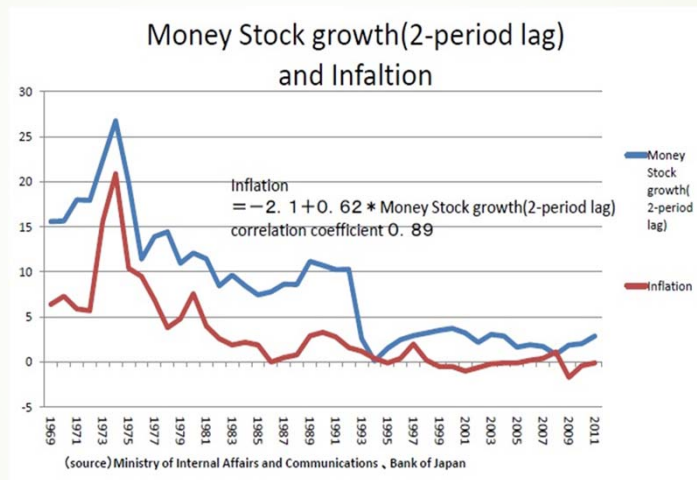
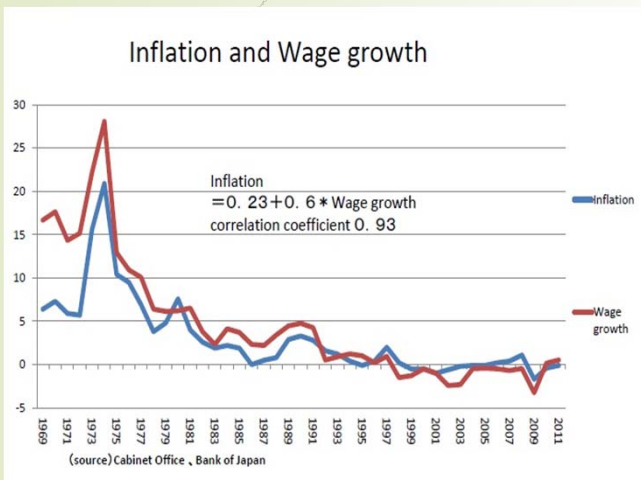
Wage growth to Inflation



Money to Inflation and Wage growth



Several correlations: thanks to Yoichi Takahashi



The Next Regime?

- ▶ Reflationary regime transitory by definition
- ▶ No “silver bullet” for growth policy
- ▶ The Third Arrow matters in influencing the formation of the next regime
- ▶ Two policy philosophies
 - ▶ A) government-led: industrial policy-like target policy, government fund
 - ▶ B) market-enhancing: competition policy, deregulation
- ▶ Industrial policy rarely works, but deregulation needs careful design