

Summary of Discussion in the International Roundtable2022

Post-Covid Economy and Society

This roundtable was part of an international project conducted by the Economic and Social Research Institute, Cabinet Office, Government of Japan, in which experts mainly from Japan and the U.S. discussed the Post-Covid Economy and Society from a broader perspective, following from the previous International Roundtable on December 17, 2021. The participants engaged in wide-ranging discussions through three themes, in Tokyo, on December 14, 2022. Here is a brief summary of the main points that emerged from the discussion.

Session #1: Trust to the Government and Information provision

The first session was chaired by **Takeo HOSHI**, who launched the session by raising one of the emerging topics during the pandemic: the role of government in bringing out behavioral changes that are required for or helpful in containing the spread of infections. The government was often asked to provide critical information to change people's behavior in the pandemic. He asked participants, "Is trust in government a key variable to implement public policies effectively?"

Andrew ATKESON pointed out three reasons why many in the U.S. were dissatisfied with the government: 1) No clear strategic objectives; 2) lack of alignment of policy actions with strategic objectives; and 3) lack of accommodation of personal/political choices. The US government neither articulated a goal for Covid mitigation, nor provided sufficient epidemiological studies to identify transmission pathways for Covid despite huge potential economic and social returns.

Tomoko HAYASHI presented OECD data showing that trust in government in Japan was not as high as in other countries, in particular, among young/middle-aged generations and women, and pointed out that one of the policy lessons from the pandemic was the importance of inclusion of these people in decision-making in normal times to enhance the resilience of the society.

Miwa NAKAJO argued that political trust mattered when government policies required people to make sacrifices. In this context, she pointed out that those who followed government policies were more likely to trust the government, based on a survey asking about people's decisions to evacuate Tokyo following the Fukushima nuclear accident.

Taisuke NAKATA emphasized the balance between health and economic outcomes in managing a pandemic. The right balance depends on a value judgment. In other words, optimal policy depends on the objective function. He noted that in Japan, the objective function of a representative infectious disease expert might be quite different from that of an ordinary citizen, and that the disagreement between policymakers and infectious disease experts might be due to disagreement on the objective

function.

Tsutomu WATANABE showed evidence on “Long Social Distancing”, a phenomenon prevalent in Japan: many people plan no or only partial return to pre-Covid activities. Regarding this phenomenon he raised several questions, and he was concerned that it would have negative effects on various economic outcomes such as labor supply, potential output, and wages.

Luigi ZINGALES argued that trust in government was largely influenced by experience of the people, including media reports, government propaganda, perception of the alignment of interests, and cultural/historical stereotypes. In order to restore trust in the government, he proposed, in the field of social media, to separate posting from editing and re-introduce liability for promoting particular posts. He also emphasized the importance of enhancing transparency and increasing representativeness on the side of the government.

Following initial comments from panelists, **HOSHI** asked the reason why in Japan, despite low trust in the government, actions to prevent infection, such as wearing masks, had been accepted widely. **HAYASHI** explained the characteristics of public opinion polls in Japan: there is a tendency for a high proportion of respondents to answer “neither (neutral answer)” or “don’t know”, and she added that people’s higher trust in experts might be the reason why many were wearing masks and keeping social distance in Japan. **NAKATA** pointed out that Japan’s public opinion polls needed to be analyzed with more caution, noting the swing in public opinion before and after the Tokyo Olympic Games. In terms of relationship between government information provision and people’s behavior, **WATANABE** argued that in periods of emergency such as a pandemic, people in Japan tend to have a high level of trust in the government and pay close attention to information provided by the government, but in the period of non-emergency, trust in the government is likely to decline and less attention is paid to information from the government.

Session #2: Responding to Employment Shocks

Alan AUERBACH chaired the second session which compared two alternative employment strategies in the pandemic: subsidizing firms to retain employees including furloughed employees vs. providing income support to laid off workers. To open the session, he identified characteristics of labor policies during the pandemic: 1) Policies were responding to a short/sharp economic contraction; 2) It was necessary to deal with large/temporary sectorial shifts in demands, and shifts in sectorial output afterward; and 3) Policies were aimed at keeping people at work.

Janice EBERLY pointed out that in emergencies including pandemics and natural disasters, it was important to maintain work, not just preserve jobs, in order to avoid costs of shut down/re-start. She noted that it was preferable to be well-prepared for emergencies by having business resilience plans. She also argued that it was necessary to consider implementation costs in evaluating public policies.

Edward GLAESER stressed that in the Covid shock that was a combination of economic and disease shocks, it was important to quickly help those who were hit hard, but the government had very limited capacity to respond to it speedily. He indicated that the Paycheck Protection Program (PPP) in the U.S., which relied on private banks to rapidly disburse aid to small businesses, had succeeded to help small business speedily, which was estimated to have some positive short-run employment effects and longer-term survival expectations. However, these effects came at considerable cost.

Toshihiro OKUBO indicated that, as for financial aid in the pandemic, firm subsidy programs seemed to work well in Japan, while financial-aid programs for individuals did not help low-income people as much as would have been desirable. He highlighted the concern that low-income individuals with poor IT literacy would be left behind when applications for benefits were digitized.

Betsey STEVENSON pointed out that implementation of public policies mattered, noting that various policies were introduced to assist workers and businesses in the early days of the Covid pandemic, but utilization of several policies such as tax incentives was quite low. She also raised a problem that the benefits were not well coordinated due to the existence of too many policies. She also noted that some policies with initially low take up rates had long eligibility periods and take up was happening now, even though the need for assistance had waned.

Chad SYVERSON pointed out that in a crisis, no/less liquidity could make employers default on wage payments. He described that, in comparing job retention programs and workers' income support programs, it was necessary to consider the magnitude of workers' employer-specific human capital, sunk capital of firms that exit, and the productivity-enhancing effect of market reallocation.

Miho TAKIZAWA noted that evaluations of the Employment Adjustment Subsidies (EAS), a job retention program in Japan, varied according to extant studies, but there were no statistically significant results for employment. She argued that it was necessary to analyze the EAS in a timely manner based on available data because a large amount of budget was spent on it.

Following initial comments from panelists, **Takatoshi ITO** emphasized that it was necessary to analyze implementation costs in evaluating subsidy policies in Japan such as the EAS. **AUERBACH** asked participants whether the policies implemented in the Covid pandemic had problems such as mis-targeting because they had been designed too quickly. **EBERLY** replied that it took nine months to pay benefits to people without access to the electronic tax system. **STEVENSON** noted that the unemployment insurance system was controlled by state government and the social security system was managed by the federal government, but the lack of connectivity between the two systems harmed the effectiveness of policies. **GLAESER** highlighted that limits on capacity of developing public policies speedily were very significant in the crisis, and added that the scale of fraud mattered when evaluating policies.

Session #3: Impact of the Pandemic on the International Economy

The third session was chaired by **Anil KASHYAP** who started discussions by noting that the pandemic played out in many ways in the world economy, and one of them was a shock to supply chains/trade patterns.

ITO indicated that Japan was the only developed country that had not exceeded its pre-Covid peak of real GDP, which might be caused by too long a restriction period. He argued that the pandemic was preceded by de-globalization and decoupling, which was accelerated and made worse by the Russian invasion of Ukraine.

Junko KOEDA pointed out that public external debt of low-income countries to China grew significantly in the last decade, which caused increasing systemic risks. To improve systematic resilience, she argued that a G20 common framework for debt treatment was required with support by the IMF.

Maurice OBSTFELD observed that the pandemic had created a great deal of uncertainty and that we had already seen some periods of instability in financial markets. He argued that we should not lose sight of potential tipping points in areas beyond financial markets, including health, climate, politics, and geopolitics. He emphasized, from this perspective, that adding the African Union to the G20 was critical.

Hélène REY suggested that Europe was very much in the frontline of energy shocks rather than the U.S. because of its geographical location, close to Ukraine. She expressed concerns that rising short-term real interest rates and appreciation of the US dollar at the same time tended to tighten financing constraints for low-income countries, and restructuring debts of those countries would be one of the major problems for the global economy.

David WEINSTEIN pointed out that early in the Covid pandemic, a lot of restrictions on trade were implemented, which had raised concerns about the reliability of global supply chains. He argued that amid increasing focus on “economic security”, it was necessary not to forget that a lot of pressure to intervene in markets could cause price swings, which would be very hard to deal with.

Following initial comments from panelists, **KASHYAP** asked about the possibility of regressing globalization and the impact of China's exit from its “Zero-Covid” policy on the global economy. **ITO** argued that the world was heading to deglobalization, and he pointed out the importance of incorporating the “Neutrals” -- South Asian and African countries -- into western democracy. **OBSTFELD** was concerned about the impact of China's lifting its Zero-Covid policy on the global economy, and also highlighted that the multilateral cooperative efforts between the U.S. and African Union were significant in the field of global health infrastructure and climate change. **KOEDA** and **REY** noted that bringing China on board was especially important in addressing the global agenda.

WEINSTEIN pointed out that although trade sanction cases were increasing rapidly even before Russia's invasion of Ukraine, the success rates of sanctions by individual countries were poor. He emphasized that multilateral efforts were needed to put pressure on a country.

Concluding remarks by the Organizer

Minoru MASUJIMA thanked three Co-Chairs and participants. He noted that the economy and society were in a transition toward a Post Covid-19 Era, and the Covid-19 was not history yet. In this context, he admitted that there are limitations on drawing lessons from the Covid shock and considering future policy directions. However, he emphasized that it was worthwhile for economists to get together and continue this kind of intellectual exercise in order to draw lessons from the pandemic as history and pass them to the next generation.

APPENDX: List of Participants

Andrew ATKESON, University of California, Los Angeles

Alan AUERBACH, University of California, Berkeley

Janice EBERLY, Northwestern University

Edward GLAESER, Harvard University

Tomoko HAYASHI, Economic and Social Research Institute, Cabinet Office

Takeo HOSHI, University of Tokyo

Takatoshi ITO, Columbia University/National Graduate Institute for Policy Studies

Anil KASHYAP, University of Chicago

Junko KOEDA, Waseda University

Minoru MASUJIMA, Economic and Social Research Institute, Cabinet Office

Miwa NAKAJO, Tsuda University

Taisuke NAKATA, University of Tokyo

Maurice OBSTFELD, University of California, Berkeley

Toshihiro OKUBO, Keio University

Hélène REY, London Business School

Betsey STEVENSON, University of Michigan

Chad SYVERSON, University of Chicago

Miho TAKIZAWA, Gakushuin University

Tsutomu WATANABE, University of Tokyo

David WEINSTEIN, Columbia University

Luigi ZINGALES, University of Chicago