

**Tentative Summary of Discussion of the International Conference
by secretariat as of Dec 23,2022**

The ERSI has held an international conference annually that brings together economists mainly from Japan and the United States. This year's conference was held on 15 December, in conjunction with the Roundtable on Post-Covid Economy and Society. The following is a summary of the discussions.

Keynote speech: US Macro in Transition

Speaker: Jared BERNSTEIN (U.S. Council of Economic Advisors)

BERNSTEIN characterized the previous business cycles in the US as having a low natural rate of unemployment, stable potential output and decreasing natural interest rate, that led to a flat price Philips curve and secular stagnation. Then, in response to the pandemic, the US government resorted to very strong fiscal policy, “shots in arms and check in pockets”. The pandemic shifted demand to goods from services and disrupted supply chains. The strong demand and disrupted supply led to the high inflation. The US economy is now in transition, ideally to steady, stable growth. Challenges in transition include fiscal/monetary overshooting, a high sacrifice ratio of unemployment for inflation, non-linear reactions to tightening, unforeseen shocks (e.g., energy, political “own goals”), and wage-price dynamics. Tailwinds during transition include the strongest job market in decades, healthy balance sheets of households, energy price declines, “informed” fiscal and monetary policy, and improving inflationary pressures.

Comment: Koichi HAMADA (Yale University) mentioned that conventional economists believe that monetary factors do not change long-run technical progress. But he considered, looking at Japan’s postwar history, that the slightly more inflationary periods associated with cheaper yens, namely, the high-pressure periods, had led Japan not only to higher employment but also to long-run real economic growth.

First Session : Work from Home

Chair: Tomoko HAYASHI (ESRI)

Edward GLAESER (Harvard University), presenter, started with an overview of the development and decline of cities in the long term. He pointed out that technologies had brought people into cities, and there had been technologies that had pushed people away from cities, and described that the main factors of increasing population in cities were January temperature, education level of residents, entrepreneurship, and attractiveness as a consumer city. The number of Americans working from home has doubled since pre-pandemic. He was concerned that actively promoting work from home would make the world even more unequal because the elite were able to work from home. He argued

that how much people work from home was important in predicting the future structure of cities, but the tendency of human beings to learn from each other and work collaboratively in closed spaces was also important to consider in looking forward.

Toshihiro OKUBO (Keio University) , discussant, explained the progress of teleworking in Japan, taking account of regional differences. According to his survey, the frequency of commuting decreased rapidly in large cities immediately after the outbreak of Covid, but it started to increase in 2022. He pointed out that teleworking could improve work-life balance, while face-to-face communication was a key to innovation.

Second Session: Risks in the Financial System

Chair: Anil KASHYAP (University of Chicago)

Hélène REY (London Business School) , presenter, argued risks in the financial system are extensive, including traditional risks and new emerging risks. She pointed out that the recent tightening of monetary policies in response to the hike in inflation in the US and Euro area is bringing stress to the financial market where both public and private debt have increased rapidly at the early stage of the Covid crisis. She suggested it could trigger liquidity dry-ups as experienced in March 2020. Then she moved on to comment on the risks in emerging markets, Euro area and low-income countries, where increases in dollar value, food and energy prices put pressures on financing. She explained that the risk incurred by China's lending will be limited to a few areas. She also suggested there exists sizable risk to assets in financial markets, stemming from cyber risks and climate and bio-diversity risks that are estimated to be very large.

Takatoshi ITO (Columbia University /National Graduate Institute for Policy Studies) , discussant, mentioned that inflation rates in the US and Japan are very different, and thus, monetary policy in US and Japan are very different. He insisted that one of the consequences is sharp yen depreciation, while BOJ has been criticized for keeping the interest rate low. He argued that the BOJ tightening, even if it happens, will not cause severe financial system instability.

Third Session: Post-Pandemic Fiscal Policies

Chair: Charles Yuji HORIOKA (Kobe University)

Junko KOEDA (Waseda University) , presenter, introduced data on central governments' debt in major countries, notably in Japan. She pointed out much of the recent increase in government debt was purchased by central banks. While many countries see rising inflation and have begun to react to it, Japan is an exception and still maintains a loose monetary policy stance, including its effort to keep long-term interest rate low, which has increased short-term government debt held by the public. The risks incurred by the large volume of short-term government debt in Japan include large rollover

risk, undermining of fiscal discipline and amplifying intergenerational inequality.

Alan AUERBACH (University of California, Berkeley) , discussant, pointed out large fiscal gaps estimated for Japan and the US, the latter of which is elevated due to the expected increase in pension spending and, especially, health spending. He also argued that Japan faces more challenges in reducing government debt as it cannot rely on future growth.

Fourth Session: Productivity

Chair: Minoru MASUJIMA (ESRI)

Miho TAKIZAWA (Gakushuin University), presenter, using micro data, decomposed productivity change in Japanese companies. She estimated that productivity gains in Japan are mainly from improvement in productivity within firms, while gains from reallocation of resources from worse firms to better firms had been negative in Japan, though it improved a little during the pandemic period. She also compared the relationship between market concentration and productivity between Japan and the US and finds that increased concentration improves productivity in Japan while it reduces it in the US and suggests that the finding for Japan might be the result of the protection of inefficient small- and medium-size companies. She proposed that reducing protection to encourage competition, together with enhancement of job-to-job labor mobility, will increase productivity in Japan.

Chad SYVERSON (University of Chicago) , discussant, observed that productivity went down and up over the pandemic period in Japan, suggesting it might be caused by labor adjustment costs rather than measurement problems. He argued that the theoretical foundation of a positive relationship between productivity and concentration in Japan is less likely an inverse-U relationship than instead positive factors outweighing negative ones.

Panel Discussion:

Chair: Alan AUERBACH (University of California, Berkeley)

The panel aimed to review the policies and the predictions that were made early in the pandemic and to help us understand how we may have to approach another situation.

Andrew ATKESON (University of California, Los Angeles) described that in the Covid shock, when those initial plans that were based on short-term interventions broke down, there was no plan of how to deal with long-term mitigation of the epidemic. He argued that epidemiologists had to consider the economic and social costs of pandemic mitigation through NPIs (Non-pharmaceutical Interventions).

Takeo HOSHI (University of Tokyo) raised three points about the Covid pandemic where our initial

views turned out to be mostly right. First, the pandemic caused financial panics as we expected. The phenomenon of “dash for cash” was found in many parts of the world in March 2020, but financial authorities were well-prepared to contain the panics. Watching markets closely will be necessary to prevent financial crises as we now enter the transition out of the pandemic. Second, Japan succeeded in protecting overall employment but the concentration of pain in a certain subset of the population created a huge problem. Third, the pandemic has changed many aspects permanently as we anticipated. He also pointed out some areas where we got wrong, including the importance of the supply side impacts of the pandemic, which eventually turned out to outweigh the demand side shock.

Anil KASHYAP (University of Chicago) pointed out that many economists missed the seeds of high inflation, which was the biggest risk to the global economy now that monetary policy will need to be tightened to deal with it. He also mentioned that we economists could have predicted huge negative impacts of long-term school closures on American youth, but we were not able to have much impact on the decision process. He also mentioned that it was unclear whether the shift to more working from home will boost productivity or not, and this distinction will be important for whether it can be sustained.

Taisuke NAKATA (University of Tokyo) mentioned that contrary to the assumption before vaccination, various NPIs had persisted even after vaccine deployment in Japan. He showed concerns that the Covid shock would leave permanent scars on the Japanese economy, indicating undesirable developments of declines in marriages and increases in suicides as well as slow economic recovery.

Following initial comments from panelists, **AUERBACH** asked about the integration of economic and social costs in the decision process in cases of public health emergencies. As for the decision of school closures in the U.S., a panelist pointed out that it was made hastily without identifying the routes of transmission, and another said that the decision was made without prior examination of the impact on students and parents. Participants also raised the following issues: which government institution could best act to integrate different interests in formulating policy during a pandemic, and how to deal with the phenomenon that a small number of complaints could make the government to stop implementing effective policies in Japan.

Concluding remarks

Minoru MASUJIMA, reflecting two years of research on Covid-19 at the ESRI, shared his impression of the conference in three points, the importance of international collaboration research that enable international comparisons, a need for continued research based on the accumulation of research so far, and the potential for interdisciplinary research such as the relationship between infectious disease control and economic activity. He then expressed his gratitude for the supports of the

participants and announced that the next ESRI International Conference will be held next summer on the topic of demographics, a long-term issue.