

**Tentative Summary of Discussion of the International Conference
by secretariat as of August 3,2023**

The ESRI has held the ESRI International Conference annually that brings together economists mainly from Japan and the United States. This year's conference was held on 3 August discussing the theme of "Demographic change and Economic growth ". The following is a summary of the discussions.

Keynote speech: US Macro: Tailwinds & Headwinds

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

BERNSTEIN described the US economy as being in good solid shape in the midst of a pretty reliable expansion. He explained that a tight labor market was supporting robust consumer spending and that inflation was easing in no small part because supply-side constraints were unsnarled and demand was cooling based on some measures. He highlighted that what's unique is that the decline in inflation which had been observed so far had come with very little trade-off in terms of weaker economic activities, although it was possible that the sacrifice ratio will wake up in the future. He suggested that it had to do with some of the unique supply-side issues of pandemic economics happening when a significantly huge economic shock hits the economy and then normalizes, which is a once in a century event. Regarding the long-term forecast, he argued that the Bidenomics investment agenda would improve the economy, while noting that there are some fiscal and financial risks.

First Session : The effects of countermeasures against the declining birthrate

Chair: Tomoko HAYASHI (Cabinet Office)

Shintaro YAMAGUCHI (University of Tokyo), presenter, saw early childhood education (ECE) as one of important countermeasures against the declining birthrate from the aspect of human capital investment. He argued that a policy intervention for ECE accompanied by large public expenditures can be justified since ECE has positive externalities such as reducing crime and welfare dependency and improving health. He pointed out that little is known about the efficacy of large-scale universal ECE programs, particularly outside of North America. Based on his study on policy effects attempting to fill the gap, he showed that a universal preschool expansion in Japan significantly reduced juvenile violent arrests and the rate of teenage pregnancy but did not increase the high school enrollment rate. He suggested that improved non-cognitive skills can account for the reduction of risky behavior in adolescence.

Jessica Pan (National University of Singapore), discussant, suggested that high-quality universal preschool education is one potential lever to increase fertility by helping families balance childcare

and work. She pointed out that the effectiveness of pro-family policies depends on the institutional and social context as well as policy design. Then she argued that changing entrenched gender norms is crucial for easing work-family tension for women.

Second Session: Birthrate and female labor force participation

Chair: Anil KASHYAP (University of Chicago)

Mary BRINTON (Harvard University), presenter, raised the question of whether the rise in women's labor force participation is related to fertility decline. She showed that the female employment-fertility relationship at the country-level has reversed from being negative to positive by 1990, contrary to expectations of human capital theory. She also pointed out that some countries have experienced relative stability in their birth rates while married women's employment increased, whereas other countries including Japan have not. Then she characterized countries, focusing on effects of social policies, cultural attitudes and norms, and institutions. Her recommendation to Japan was to strengthen the positive relationship between women's employment and fertility through a combination of an increase in social spending on family policies, changing towards more egalitarian gender-role attitudes and norms, and increasing women's wages relative to men's.

Daiji KAWAGUCHI (University of Tokyo), discussant, argued that the expansion of public funds for family policies needs careful consideration because its path to fertility is narrow. Regarding gender attitudes and norms, he pointed out that they are difficult to change but education can help and adjusting long working hours is underway. He suggested that new government policy may narrow the gender pay gap to some degree.

Third Session: Aging and productivity

Chair: Atsushi SEIKE (ESRI president emeritus)

David BLOOM and Rainer KOTSCHY (Harvard University), presenter and co-presenter, discussed the impact of population aging on macroeconomic performance. They pointed out that Japan is a frontrunner in world population aging. Based on an aggregate production function model fit to cross-country panel data, they projected that population aging might lower Japan's annual growth rate of income per capita by about 0.6 percentage points in 2020 to 2040. Then they suggested that feasible policies to promote migration and labor force participation of older people and women, among other policies, might help offset the projected decline to a significant degree. They further indicated that improvements in people's age-specific functional capacities might enable people to expand economic activity into older ages; however, they cautioned that the realization of such expansions depends on people's retirement preferences and the extent to which labor markets and health and social policy facilitate retaining workers in the workforce. They concluded by emphasizing that policy

design should involve multiple levels of stakeholders to create an intergenerational contract with broad political support.

Sachiko KURODA (Waseda University), discussant, pointed out that large age-mismatch exists in Japanese labor market. She argued that human capital investments (both in terms of reskilling and health) are necessary to offset functional capacity deterioration with age. Referring to Japan's recent health promotion, she pointed out that it is important to discuss whether government or firms should take the lead in health capital investment or whether individuals should take the initiatives and who should bear the costs.

Fourth Session: Necessary fiscal adjustment due to continued aging

Chair: Alan AUERBACH (University of California, Berkeley)

Tomoaki YAMADA (Meiji University), presenter, described impact of population aging on the macroeconomy and Japanese government debt and discussed potentially effective policies, using an OLG dynamic general-equilibrium model. First, he pointed out that Japanese public debt measured as a ratio of GDP will continue to increase, and sustainability is a great concern. He showed an estimate that the consumption tax rate, though it is just for measurement purposes, needed to balance the government's budget constraint will exceed 40% around 2060. He argued that social security benefit cuts and extension of the retirement age should be combined to minimize the tax rate increase. Second, as for the macroeconomy, he pointed out that participation of elderly and female workers and use of foreign workers are necessary to alleviate supply decline. He argued that more research is necessary on the political feasibility of the reforms.

Douglas ELMENDORF (Harvard University), discussant, pointed out that increasing longevity and declining fertility reflecting an expansion of individuals' range of choice should be celebrated, while they pose substantial economic and fiscal challenges. He commented that major policy changes are indispensable, but all have disadvantages, and political decision-making will be very difficult. He stressed that not only further careful analysis is needed but also consideration of ways to distribute the fruits of economic growth in societies will be necessary.

Panel Discussion: Demographic change and International capital flow, long-term interest rate

Chair: Takeo HOSHI (University of Tokyo)

This panel aimed to discuss policy issues related to the challenges demographic change poses for the global financial system.

Alan AUERBACH (University of California, Berkeley) argued that possible factors that prevent interest rates continuing to be depressed below historical level due to aging population include increased old-

age based transfer from savers to spenders, increased demand for safe assets reflecting heightened uncertainty, labor force participation among elderly and limits on capital mobility.

Charles EVANS (Former President, Federal Reserve Bank of Chicago) stated that during his time at the Federal Reserve declining trend growth rate, nominal and real interest rates, and having rates closer effective lower bound (partly due to population aging) made policy-making challenging. The post-pandemic environment is full of uncertainty and risks, including a rising geopolitical one, which may make the elderly try to guard their saving. Stronger growth without immigration seems unlikely, and despite the current high inflation, return to secular stagnation and low interest rates is possible.

Charles Yuji HORIOKA (Kobe University) mentioned the Feldstein-Horioka Puzzle, that is, despite the difference in the timing of population aging and liberalized financial markets, saving and investment are highly correlated across countries. He then stated that the Puzzle can be explained by frictions in goods markets. He pointed to the importance of reversing the recent trend of heightening of frictions in goods markets so that countries will be able to move their capital freely across borders.

Sayuri SHIRAI (Keio University) mentioned that there are two views about the future path of the natural interest rate after COVID, and stated GX investment may have upward pressure on natural interest rate although the riskiness of the investment and the fragmented financial market make the investment difficult so that the pressure may not be large. She pointed out that due to Baby Boomers' dissaving as a result of retirement and the change in corporate sector's investment behavior, Japan's long term interest rate may increase in the future. But she also stated that based on BOJ's current policy and market expectations, it may stay low for the time being.

Following initial comments from panelists, **HOSHI** asked about differences in views on the future path of long-term interest rates among the panelists and asked about the reasons for the high Japanese corporate saving rate. Panelists suggested that pessimistic future prospects for Japanese corporate sector and low wages contributed to high saving, but wage increases and investment may change the trend.

Concluding remarks

Yutaka MURAYAMA shared his impression of the conference. He focused on three main points, the necessity of presenting quantitative facts for discussion, the potential for research with an interdisciplinary spirit, and the importance of discussion from international viewpoints. He then expressed his gratitude for the supports of the participants.