ITOH MOTOSHIGE

Emeritus Professor, University of Tokyo; Professor, Gakushuin University; Former Advisor to the Prime Minister

Richard COOPER

Next, Itoh?

Itoh MOTOSHIGE

Thank you. I echo many points just made by the previous speakers, so I will try to be selective, but it is obvious that the world economy is in an expansionary process. If you look at stock prices, or employment numbers, or growth rate, or even just rising long-term interest rates, this all shows just where the economy is expanding, but this is not a place where we speak only of the optimistic picture, so let me just raise three concerns or problems. Some have been mentioned already by other people.

One is the very low growth rate. Not just the growth rate, but very low potential growth rate, so this may be very much related to what people call the circular stagnation, and behind is the very low productivity. I do not know how technology is related; it may be too early to speak about the influence of AI, or IOT to the productivity, because if you look at the previous innovations, there are some long time-lags between the introduction of technology and growth, but I think maybe I agree that there are some substantial structural problems in the economy, which makes the growth rate very low.

In Japan, we have a lot of discussions about the increasing importance of reform to accelerate the reallocation of resources, especially for the labour market, it is very important. With just the reallocation of labour, it is very difficult to just raise the growth rate, and also, in the case of Japan – and maybe many other countries – the investment of human resources has been very weak in the past, and that may provide another reason why productivity is growth, and trade is very important. There are many discussions about the increasing protectionism, and yes, that is a concern, but at the same time, we can still have some prospects about the increase of a free-trade regime. In the case of Japan for example, I hope the economic partnership with Europe will be concluded by the end of this year, and also even TPP, although the United States is out, but we will still try to finish the conclusion of the TPP, excluding the United States, by the end of this year. This kind of step forward is very important in order to get more profit.

My second concern, which has also been raised by some other people, is the very low inflation rate. Usually, a low inflation rate is very good, but we have to remember that major countries just implemented a very varied expansion in monetary policy, and very stimulating economic policies, and a very low interest rate, but still the inflation rate is very low, especially in the case of Japan. As you know, we just introduced an expansion of the monetary policy, and the unemployment rate is the lowest in the last 20 years, and stock prices are the highest in the last 20 years. Still, the inflation rate is just around 0.5%, and the wage is increasing very slowly, so because our GDP is increasing, it means a very dramatic drop of the wage share in GDP. There must be kind of structural problem here again. It might be technology or a question of measurement, but we have to think more seriously about this low inflation rate.

Third, I think Kemal just mentioned the importance of the risk of debt, and I agree, but I just want to emphasise the other side: the risk of asset. You have to look at the price of the stocks and real estate. Because of the maybe very, very low interest rate, in most countries, probably the stock price and the real estate price is among the highest, and it is very difficult to say whether this is a bubble or not, because of the low interest rate. However, in the process of the increasing interest rates – from now on, I hope – it is very possible that there will be some drop in the asset price after the interest adjustment, and increasing interest rate is a very important process for normalisation of the global economy. However, increasing interest rate is a very difficult process if we just expect some kind of reaction of the asset price, so we have to watch very carefully the response of the asset price to the interest rate. Thank you.

Richard COOPER

Thank you very much.