

## AKINARI HORII

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### John LIPSKY

Let us start with Akinari Horii, former senior official at the Bank of Japan, who might offer a few words on why Japan is doing better than expected.

### Akinari HORII

Well, Japan is doing all right, as expected. That is my interpretation. During the past 12-month period at least, Japan's economy has been doing an excellent job. The labour market, as you correctly pointed out, is the tightest during the past half century, perhaps. Corporate profits are the highest ever, to the extent I know. I do not know pre-World War II history, whatever, but the highest in terms of yen amount, in terms of return on equity, as well as return on sales. Corporate profitability is very, very comfortable, the labour market is tight, but the inflation still low. Japan's CPI inflation is now running below 1%, despite all this. The BOJ's study says that inflation expectation is anchored around 0%, while 2% in the US and 1% in the euro area, according to the Federal Reserve and ECB studies.

Inflation is low and inflation expectation is low, reflecting each other. Many pundits say that the Phillips curve has become flat or flatter than in the past at least. They say there have been structural shifts in inflation dynamics, therefore do not worry about inflation. That is perhaps the view of the majority of economists. I am afraid that they are simply so myopic as to believe that this time it is different. In my view the Phillips curve is really a curve. It is not a straight line, or a Phillips line; it is a curve, in which there is an inflection point. In the case of Japan, the inflection point appeared in history when the unemployment rate was below 3%, sometimes 2.4%, other times 2.2% or 2.8%. I think that in order to see the inflection point, perhaps you need a trigger, some event like an accident in a big chemical plant, etc., which spurs people to reassess inflation prospects. That is my view, definitely a minority view, but let us discuss the flat Phillips curve or Phillips line later.

### John LIPSKY

The bottom line is we should not be too complacent in thinking this positive performance can just be sustained indefinitely. Can I also ask whether the Bank of Japan is correct to continue with its highly expansionary policy of keeping the 10-year bond yield at zero?

### Akinari HORII

First of all, in my opinion they want to change inflation expectation and stabilise inflation expectation around 2%. The basic strategy is to have people experience 2%, before they change policy stance. Seeing is believing. In economics terms, inflation expectation is more adaptive than rational, or more backward looking than forward looking. People have to see actual inflation through their eyes, before they believe that the inflation is reality. I think that is the basic policy of the BOJ, so they stick to their guns.

### John LIPSKY

Thank you.