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TAMING JAPAN'S DEFLATION

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P R O C E E D I N G S

MS. SOLIS: Good morning, everyone. My name is Mireya Solis. I am director of the Center for East Asia Policy Studies here at Brookings and it's my great pleasure to welcome you to the book launch of "Taming Deflation" – "Taming Japan's Deflation: The Debate Over Unconventional Monetary Policy." The book was just published by Cornell University Press and we are very fortunate to have three of the co-authors today. Gene Park from Loyola Marymount University, Saori Katada from the University of Southern California and Yoshiko Kojo from Tokyo University.

The book addresses a fundamental question for Japan's past economic performance and the future of its economic revival. Why has it been so difficult to exit deflation? Why did it take so long for Japan to move away from monetary orthodoxy, even though it was very clear that their existing policies were not working? What then allowed for that shift towards activism in monetary policy and now five years after that shift how is that experiment working out in Japan?

So, Professors Park and Katada will layout the core arguments of the book and then they will be followed by commentary from two leading experts, Steve Vogel from the University of California at Berkeley and Joseph Gagnon from the Peterson Institute just across the street.

And we will have an opportunity to engage with Professor Kojo when we start a conversation among the panelists and then when we bring all of you to a conversation with the panel.

So, without further ado, Gene, if I can ask you to please get us started.

MR. PARK: Hit the button?

MS. SOLIS: Yeah. Hit the button. Yeah.

MR. PARK: Yup. Hello, thank you. Is this mic working? I can't tell.

MS. SOLIS: Yeah. The red light is on.

MR. PARK: Okay. I just don't hear it. Hello. Thank you very much to the Brookings Institution and Mireya Solis for inviting us to have this event and also to all the staff, Jennifer Mason and others who really handle the logistics of it.

We would also like to acknowledge and thank the Center for Global Partnership as well as University of Southern California for providing financial support for the event. And we would also really like to extend our thanks to Ed Gagnon and Steven Vogel, our discussants who took the time to read our book and show up today as discussants. And lastly, I know there are a lot of events in Washington, D.C., so thank you all for making time for our event.

So, I will just jump in and talk about the key question motivating our book. And our book, as Dr. Solis mentioned, is why it took the Bank of Japan so long for take -- to take the problem of deflation seriously and then take bolder monetary measures to overcome it.

So, we focused specifically on the period from 1998 until roughly the end of 2012. 1998 is when the Bank of Japan became independent. At the end of 2012, Prime Minister Abe came to power. And then in March of 2013 appointed Haruhiko Kuroda and policy pivoted sharply.

So, we are largely focusing on the period prior to that pivot. And just as a reference point, Kuroda launched large scale quantitative easing program in Japan in 2013, which was roughly about four years after the US had launched its first quantitative easing program.

So, but why is this question interesting? Why would we have expected the Bank of Japan to have acted earlier? There are three reasons that we think this is somewhat puzzling. The first is, most obviously, economic reasons. Japan had been in deflation for a really long time. In fact, its stretch of deflation was really unprecedented in the advanced capitalist economies.

Just as a reference point, from 1998 to 2012, from April 1st specifically, which is when the Bank of Japan became independent, through the end of 2012, of all months during that time period, for 70 percent of those months, the Japanese economy experienced deflation.

There were also calls from economists across the world, going back as early as 1998. Paul Krugman wrote an article suggesting how Japan could get out of deflation and suggested that it was in a liquidity trap. That was soon followed by Dr. Ben Bernanke's piece called 'Japanese Monetary Policy - A Case of Self-induced Paralysis'. So, you can see the critics of the Bank of Japan's policy were beginning really as early as the 1990s that accelerated over the 2000s, with many economists within Japan and across the world really calling on Japan to take bolder action to overcome deflation.

And then thirdly, there were political reasons that we would have expected the Bank of Japan potentially to have acted. There were calls across the political spectrum for the Bank of Japan to do more. This would happen periodically, with the government at times threatening the Bank of Japan to curtail its legal independence. Then around 2009, there was an Anti-deflation League formed by members of the Democratic Party of Japan that included a 150 members. And the calls were really across the political spectrum. Yet, as we, sort of argue, Japan really didn't take the problem seriously until the very end of 2012.

So, the central thesis of the book is that the Bank of Japan was slow to try bolder unconventional policy for two key interrelated reasons. The first was an entrenched set of, what we call, specific policy ideas that made the Bank of Japan anathema to unconventional policy. And by policy ideas, we define that as a shared set of beliefs about goals, priorities and causal relationships, right. So, first part of our argument again then is these policy ideas. The second element is that a relatively closed monetary policy making network privileged these specific ideas and limited the influence of competing ideas such as those calls by economists, that I mentioned earlier.

Now I will talk really briefly about some of these policy ideas, what they were. In our book we do historical analysis of the Bank of Japan over its long institutional history, its political and economic history, to explain how these ideas came about. But for the sake of time, I won't go into those details. And I will just, kind of, outline the key ideas relevant for understanding monetary policy and the Bank of Japan's view of it.

The first was a very strong premium on price stability including asset prices. The second idea, that we identify, was a view that monetary policy had limits in stimulating economic growth and if used a little too liberally, would potentially trigger runaway inflation. And the third idea is an expansive view of Central Bank independence and that made the Bank of Japan reluctant to coordinate with the government and the Ministry of Finance on economic issues.

These ideas, if we think about an unconventional policy like quantitative easing, really made the Bank of Japan reluctant to try these ideas, unconventional monetary policies. Quantitative easing blurred the distinction between fiscal and monetary policy and it compromised the Bank of Japan's independence, at least from its view, right, because it involved the Bank of Japan directly financing the activities of the government.

QE also raised the specter of inflation without stimulating the economy and indeed that notion and idea having codified by something that became known as the BOJ theory or [Nichinginron], which was first articulated in the early 1990s by the quite influential Bank of Japan economist Kunio Okina who argued, essentially, that an expansion in the monetary base would not stimulate the real economy and would basically lead to greater volatility in prices only.

We want to also, sort of, layout that we don't think that these ideas are necessarily unique to the Japanese context or unique to the Bank of Japan. Indeed some could argue that there are similarities to the Bundesbank or perhaps similar to some of the ideas at the International Organization, the Bank for International Settlements in Switzerland, which has been known as having the, so-called BIS view. But I think what's really different in the Japanese context is that Japan was in deflation for a such a long period of time and that these ideas were so influential in policy making over this long period of time.

So, the real analytic question for us is why did these ideas predominate? If Central Banks are supposed to be independent, Monetary Policy Boards are chosen -- the members are chosen by the Executive and approved by the Legislature and they are done over different time periods, from different political parties. So there should be a diversity of ideas on a Monetary Policy Board. So how do we explain how these ideas came to predominate?

The second analytic question is to show that these ideas, in fact, influenced policy. So for those two hard questions, I pass it over to Saori Katada, my co-author.

MS. KATADA: Okay. Thank you, Gene and thank you everyone for coming to this workshop and I hope you can buy the book which is sold at the back.

So, my role is to talk about the empirics of what we have analyzed. As the chapter shows that there are quantitative analyses that we used, the text from the BOJ Board minutes and transcript, which is the quantitative analysis we had in the chapter 6. But we had three case studies that can provide some basis for our claim that the policy ideas and the monetary policy network really matters a lot.

So, before going in to that case study, I would like to, kind of, give the sense of how this monetary policy network is established. So, as Gene mentioned, in 1998 then Bank of Japan gained a de jure independence through the new Bank of Japan law which was passed by the Diet. And this was, kind of, a windfall for the BOJ, in the sense that BOJ wasn't demanding that. Obviously they desired they wanted it for a long time but this was the windfall in the sense that there was a lot of financial problems in Japan and this was one way for the government to, kind of, keep track of the -- kind of, address that through the changes, reform in Ministry of Finance.

So, independence came in April of 1998 and this created the Policy Board to be the premier institution that decides on the monetary policy. And Governor and Deputy Governors, two Deputy Governors, as well as the six Non-Executive Board members become the privileged position in giving the -- deciding on the monetary policy. So there are -- this one -- the de jure independence was critical institutional set-up for the monetary policy.

But also secondly, important element of this is that there has been a very closed monetary policy network established through this independence around the BOJ Board which includes the BOJ Secretariat, which are the career BOJ officials who provide information and guidance, advice to these Board members. And this become the central part of the decision making. And also other entities which associate with the monetary decision making, such as Ministry of Finance as well as some of the financial entities and so on, became part of this monetary network.

So, we discussed some of the career paths of the BOJ officials, how they are trained to be ingrained in this BOJ theory, that Gene talked about, appointment process which privileged this, kind of, a core, sector-core group of the monetary policy network and the kind of inner circles, how these inner circles had been established through some of the network characteristics, like who gets invited to BOJ conferences and whose view dominate and then so on, so forth. So this is the, kind of, underpinning of how this close monetary policy network is established.

We looked at three cases as to how this monetary policy decision has been influenced by the way that ideas, as well as this network provides. And one was basically on the installation and lifting of the zero interest rate policy from February 1999 to August 2000. And second was the first QE that Japan -- BOJ implemented from March 2001, lifted in March 2006.

But what I would like to talk about here is the post global financial crisis implementation of BOJ monetary policy. So, this is the tenth year anniversary of the global financial crisis. And I know the crisis might be fresh in your memory still. But -- and also, you know, we are, to some extent, living in the aftermath of this global financial crisis with unwinding of the QE and then things like that.

But BOJ's policy in relation to global financial crisis was quite peculiar. There are three evidences that I would like to provide where BOJ was not totally on board with the aggressive QEs that other advanced nations implemented in the aftermath.

First of all, BOJ didn't even participate in joint interest rate reduction which took place in October 6th and 7th in 2008. Secondly, they were very reluctant, the Policy Board didn't vote in reducing the core rate which, at that point was obviously very low of 0.25 percent.

But still they could have reduced quite a bit and there was opposition from Governor Shirakawa to reduce it aggressively. And also, there were some installation of quite a bit of emergency fund mechanisms but they were a minor part of it and they had time limits as well as magnitude limits that was not conveying the, kind of, commitment on the part of BOJ to really stimulate the economy.

So, as the consequence, there has been a significant and appreciation coming from other countries being aggressively taking the QE and aggressive monetary stance. Japanese economy recovered much more slowly, even though it was one of the countries whose financial sector was not impacted by the crisis itself, which I will get to in a minute. And also there has been, you know, because of that major contraction of GDP, of Japanese economy in 2009 and farther. So, this was the, kind of -- probably considered as one of the major, kind of, detrimental effect that monetary policy had on Japan.

So, why did the BOJ implement this type of reluctant policy when it comes to facing the crisis? There are three reasons that we investigated, looked into through the minutes and interviews that we conducted. First of all, there was a notion that because Japanese financial sector, which was considered to be one of the major entity that BOJ is trying to protect and secure, was not affected, that Japanese economy would be fine. So, they were somewhat of optimists on the part of the BOJ not to tackle this as seriously as they probably should have.

The second was that there has been a pretty clear indication of the BOJ Policy Board, especially the Governor and to some extent, Deputy Governors, believing that QE would not work. And there was a lot of repeated mention which many of the politicians as well as media didn’t, kind of, treat kindly, is that Governor Shirakawa has mentioned the limits of aggressive monetary policy when there are other more structural problem associated with the Japanese economy.

And also there was a lot of indication from the -- again the minutes and the interviews where the BOJ and BOJ Policy Board was more worried about either the moral hazard or market distortion as well as the difficulty of exit or phase out of QE in the medium to long run. So, all these indicated to us that how these are ideas that Gene has outlined has been a crucial component of how the BOJ had taken their policy decision in the aftermath of global financial crisis.

So, obviously, I am sure your interest is our analysis in Chapter 8, where we talk about the incoming of the Abenomics and the, kind of, the years after that from 2012-13 onward. But I will -- you know, one thing I will note about this drastic change was the breakdown of monetary policy network. And I will leave that for the Q and A because I am sure it's a hotly debated topic.

So, I would conclude with the view that policy ideas have mattered quite significantly on the BOJ's monetary policy and Policy Board has been protected by this network, as well as the socialization which created a close, kind of, network dynamics within the institution. So, I will leave it to the discussant. Thank you.

MS. SOLIS: Thank you very much, Gene and Saori, for laying out so well what are the key arguments of the book, what are the case studies and I certainly have noted to ask you later about this breakdown of monetary policy network, that led to a very different approach in monetary policy come Abenomics.

So, now I would like to turn to our two discussants and ask Steve Vogel and Joseph Gagnon to offer their impressions and insight from reading the book.

MR. VOGEL: Thank you, Maria. This is a really fabulous book, a tour de force. I would like to congratulate the authors. I really enjoyed reading it. Let me just start with a comment from my parochial perspective, as a scholar of Japanese politics. What the field has really been missing, I would say over the past decade plus, a really good studies of the policy process in Japan. And this fills that gaping hole and it does so in a brilliant way. And it focuses on, I think, you know, exactly what we should be looking at which is, kind of, the nitty-gritty decision making process within the bureaucracy or in this case within the Bank of Japan.

The ethos of these agencies and also, kind of, the nuanced detail of how they actually do their business. And this book really delivers on that and I learned a lot from it. It's also methodologically incredibly creative. Saori described how they do this with some quantitative analysis of the text as well as in depth case studies.

But, I guess, my role is to challenge and question, so I will try to do that any way. The first question I want to raise is, is the puzzle really all that puzzling? And what I mean by that is the puzzle they raise is why is it that Japan wasn't more aggressive with quantitative easing particularly after the global financial crisis? And the authors, to their credit, note that the situation is not exactly analogous, that Japan was not in exactly the same situation as the US and Europe.

But I think they understate that difference. I see three basic differences, again which they acknowledge. One is that the crisis arrived in Japan later. Second is that Japan had been battling deflation for a long time, so that the situation was new. They say because of that then all the more reason Japan should have been aggressive. But I think you could make that argument either way. You could also say, they have been battling it for a while. So, you could see reasons why they actually might be more timid or more cautious because of that.

But the biggest difference, I think, is that the global financial crisis wasn't a financial crisis in Japan, right? And if -- and the authors very nicely detail how in that Japan had its own financial crisis, of course, in the 1990s. At that time they were very acutely aware of the consequences of monetary policy for the financial sector. The same was true of the US and the Europe after the global financial crisis. But Japan did not have the same concerns.

Another way to make the same point I am making is that if the global financial crisis had been -- this is, you know, counter factual, but if it had been a financial crisis, I am guessing, they would have been more aggressive and the puzzle would then disappear.

Second way to, kind of, question the question, would be was Japan -- was the Bank of Japan really that timid after all, right? And they focused on this particular moment and I understand why they do that. But if you look at the overall record, doesn't seem that timid, right. That Japan was an early starter in the world of aggressive quantitative easing. And they certainly have done quite a bit experimentation over time and the differences at this particular moment, I think, can be explained by the things that I was mentioning a bit ago.

Also, you know, too much versus too little is obviously easier to say in hindsight, then at the time. So, one could argue that it wasn't really a matter of the Bank of Japan officials ideology. It was that they mis-estimated what too much or what enough was, right. In other words, they may have thought that they were being aggressive, you know, deflation battlers, right. And we can say in hindsight, well, maybe they should have gone a lit bit further. But that -- it may not be so much a matter of ideology, more one of calculation.

The authors very nicely point out that -- and this relates to that point, which is that they were operating in an environment of high uncertainty, right. In other words, the people -- you know, this was a new, relatively new problem and people didn't know exactly what was going to work. They say because it was -- that all the more reason we should focus on ideas. And, I guess I would basically agree with that point. I would just argue that therefore the slight gradations of, you know, that they were a little bit more timid at one particular moment, right, is less puzzling given that what the objective circumstances were telling them to do was not at all obvious.

One way to, kind of, I guess, rephrase what the Bank of Japan ideology would be and I love there is a quote in there about, you know, playing golf and you are worried about the ball going over the cliff but there actually is no cliff, right. That's one way to characterize the ideology. In other words, that in a deflationary environment they are worrying about inflation which is not something they should really be worrying about. I mean, that's kind of a simple way to crystallize.

My point is that if we look at it that way, it's not that unusual, right. I mean other -- you know, it's a pretty common view. It comes out in slightly different forms in different countries. But it's not distinctive to the Bank of Japan.

I guess the final point on the puzzle, I would say, is that there is a lot of detailed nuance which I love in there about all the different things that the Bank of Japan officials are worrying about, right. The gist is that they should have been more aggressive, right. They should have been less worried about inflation, more worried about deflation and more aggressive.

But, I think, the authors may discount all the, kind of, other things that they were worrying about, which you list, right. But my point is like, you know, they were -- they were concerned, for example, that many of the economic problems of Japan weren't actually about monetary policy. There were other things going on. So, while you recognize that, I guess, what I am saying is that if you want to be a little bit more sympathetic to the poor Bank of Japan officials because actually maybe some of this was -- were rational things to think about, right and so it wasn't, kind of, like that they had ideological blinders.

The next thing I wanted to talk about is the relationship between the Ministry of Finance and the Bank of Japan. As you know, [Bill Graham] in his book about Japanese macroeconomic policy making, basically sees the MOF as the dominant partner in that relationship, right. And obviously he is looking at the period before the new Bank of Japan law in 1998. But my point is that he argues that there was a, kind of, a consistent pattern of adjustment that focused more on monetary policy than fiscal policy because the Ministry of Finance was more powerful than the Bank of Japan and were sort of like, you deal with this problem, we don't want to, right.

And, I guess, what my question is, even though you are dealing with the part -- the period after the new Bank of Japan law, whether there is, kind of, a lingering legacy of that relationship. For example, you would -- does the fact that the Bank of Japan was not truly independent for so long affect the development of, kind of, the bureaucratic ethos that you are talking about.

I mean, you could argue, right, for example, that the Ministry of Finance would have, kind of, of a stronger, right, bureaucratic ethos because they knew they were the top dog in the Japanese bureaucracy, whereas the Bank of Japan has a history of having to accommodate to, you know, higher authorities now and then. I mean, you could argue it the other way, right, which is that their frustration over decades of subordination, right, came out with a vengeance when they got their independence. So, just my -- I am asking a lot of questions. I am obviously not expecting you all to answer but -- everything. But throwing them out.

Another thing about the bureaucratic ethos, and basically, I like that part of the book. But it is a distinctive argument because you are focusing on the Policy Board and the Policy Board is made up of people from inside and from outside. And so, if the argument is about internal socialization, right, that only applies to the people who are coming from the inside, right. Now there is a -- I mean, one of the parts about the book that I love the most is when you talk about how when you get an outside Board member, then the Bank of Japan proper people, right, kind of, indoctrinate, brainwash, et cetera, right, cultivate those.

But, I guess, my point is that on arguing about internal socialization doesn't really apply to those who are coming from the outside and almost you have to focus more on how they are influenced. You know, how the -- how do get the people who didn't go through that whole process, to buy into this ideology and maybe we would have to learn more about, kind of, the interactions. You do stress, again to your credit, that most of the Governors during the key periods were from the Bank of Japan and I recognize that's an important point.

Finally, on your model. I am wondering whether a person's ideology with respect to inflation versus deflation necessarily correlate inversely, in the way that you describe in your model. What I mean by that is that you can argue -- you can -- I mean, I can see very clearly why, kind of, the standard 'hawkish view', right, would be that you have to combat inflation aggressively and because you are, kind of, always worried about inflation, you are going be cautious on combating deflation, right.

But, at least theoretically, that's, kind of, one of only four possible boxes, right. And to try to make this clear, right, let's say you are -- you think that deflation needs to be aggressively combated, right. I am not going to try to use -- avoid the word hawkish because it's just going to confuse the point I am trying to make. But what I am saying is, that if you are aggressive on deflation, doesn't mean you are necessarily not aggressive on inflation, right. So, you could have a four-by-four box or you could be aggressive on both or you could be cautious about both because you don't see that that monetary policy is always the right instrument of choice.

I am not saying that those four boxes are equally populated. I would readily agree with you that there is a, kind of, a hawkish viewpoint where they do correlate. But even if I am just a tiny bit right, right, which is that then it would affect the way that you sort your evidence, right, when you are trying to, kind of, categorize, right. For example, if you saw somebody making a comment that they were very worried about inflation in the United States, that doesn't necessarily, right, prove that they wouldn't want to combat deflation aggressively in Japan. Just a thought.

Final point. And I love the, you know, it's a very innovative approach. But just one question about the use of those minutes, right, to make the arguments. So, the key claim, right, which is really interesting is that these policy decisions are driven by the ideology and not by -- at least not purely by either political forces or objective economic factors. My question is, are the discussions in the Policy Board too proximate to the final decision, right, to really capture that, right.

In other words that, they are just talking about, they are worried about inflation and then they are timid about monetary easing. Those other factors that you are excluding may actually be prior to that debate, right. Does that make sense, right? It's a little bit prone to a tautology, right. If the discussion and the decision are so close, right, that discussion may actually have already incorporated the objective economic analysis or the political forces and so you may not have actually been able to separate them. That's one thing that just, kind of, leaves me with a question. Otherwise a fabulous book and congratulations.

MS. SOLIS: Thank you so much, Steve. So, Joseph, please.

MR. GAGNON: Thank you. So, let me apologize upfront that I will have to leave promptly. I had two major events this week, which was this one and yesterday there was an IMF conference I was participating in on External Imbalances but because of the funeral of President Bush, that was changed to today. So I had actually had to leave that conference to get here and I have to leave here to get back. My session is going on right now. So, I am going to stay for the panel discussion but I will leave for the questions, if that's okay. But I apologize, I am sorry but the funeral was something that happened beyond our control.

So, like Steve and I -- I think this is a great book in terms of its really thorough and convincing and it's a good read. I mean, it's well written and it also -- that, sort of, the organization and, sort of, road mapped quite well so you can, sort of, see what's going on, which is nice. You know, it's not a dense book at all, in that sense. Yet, even though it's not dense in the sense of being hard to figure out, it is dense in the sense of having detailed documentation of what was really going on in the evolution of the Bank of Japan's thinking in a unique way. So, I think people who care about monetary policy in general, but especially Japanese in particular, this is like, I think, a unique book.

I think the key idea of the book that you read over and over again is this idea of a policy network -- the Bank of Japan's policy network or the policy network of central banking in different countries. And policy network, to me it seems a somewhat strange term applied to the Bank of Japan because it was such a small network. You know, that was the problem. It was very insular. It might -- a group -- the word group think comes to mind a lot when I, sort of, was reading this.

And it's not -- I mean, it's a problem that all institutions face and to a greater or lesser extent we see it at other central banks and there is a lot of discussion of that, which I thought was very good to compare them, the central banking things and showing that in other central banks this is also in existence but there are more avenues for outside voices to be heard in some other central banks than they were in the Bank of Japan and that's very important. That's essentially the central part of the book.

And the Federal Reserve, I used to work at the Federal Reserve. I left at the end of 2009 to come across the street at the Peterson Institute. But I was involved in some of the decisions of the time, which I mention. And the Fed -- the book actually is, sort of -- the Fed comes out looking well in the book. So, I am happy to say that I will -- I don't disagree with that.

Although even the Fed had some problems, I think. I mean, all of central banks had this experience, you know, that many of their staffers remembered the inflation of the 70s and 80s and the fight against it and, you know, have this feeling that inflation is always lurking around the corner and it's very easy to come back up and be a problem and getting over that feeling that was, you know, earned in ways that the book describes in Japan, but also in other countries which the book doesn't go into but, you know, it's also true in other countries. So, central bankers are scarred by that and in getting over that is difficult.

In my own experience at the Fed was -- when the crisis hit us in 2008-2009, the Fed was very innovative but -- I mean, it was forced to. I mean, I think it was -- it would not have done these things if it really hadn't felt the whole bottom was dropping of the economy and I actually take -- I actually agree with Chairman Bernanke when he says that the shock that hit the US economy was easily greater than the shock that caused the Great Depression. I believe that's true. It's hard to prove but I believe that's true in terms of size and importance of the financial institutions that were hit. And the actions that the Fed took, which was a world of difference from what they did in the Great Depression and I think that made all the difference.

But this was a bigger shock and more immediate and abrupt and, sort of, changed than Japan experienced, in my view, because Japan's crisis, as Steve said was earlier and in terms of the deflationary impact of it, it was much slower to see and appreciate. And so, I do think the Fed had the benefit of a sharper shock. Also, the benefit of seeing how Japan, sort of, sank into deflation, sort of, almost by accident and not wanting that to happen.

But even at the Fed -- so I remember we -- when we launched QE1 -- there was many programs going on. The one I was involved in is now called Quantitative Easing, QE1 and we, you know, persuaded -- David Reifschneider and I, sort of, sat there with Ben Bernanke at the table, chairing the table and we persuaded them to do a huge program of quantitative easing and it was, sort of, my only sleepless night of the crisis, when they said, yes because I thought, oh, you know, now what have we got ourselves into. If it goes wrong, they will blame me. But it didn't.

But then, you know, after a few months it became obvious to me that this wasn't going to be enough, that we actually needed to do more. And I started to saying that but no one wanted to hear that. So, that's when I left the Fed and came here to Peterson Institute. And -- but it just shows that it's hard. I mean, there was just innovation fatigue or, sort of, the Fed felt like, oh, we have done just so much and the worst is over. You can't possibly consider ever doing this again.

Of course, they did end up doing it again with QE2 and then Operation Twist and then QE3. So, they got around to it but the -- its tough anywhere to, sort of, combat these instincts outside of a crisis. So -- but yeah, anyway. So, that sort of is my experience of this.

The public -- so, one thing that the book mentions, which I think is also worthy of mention is that Abe campaigned on getting back to inflation. It's truly extraordinary if you look around the world. I mean, you know, we had the opposite thing in America where the political pressure on the Fed after QE, drawing QE was, sort of, against it. There was very little support for it and the Fed did it anyway.

But in Japan, there was a whole political campaign for the Prime Minister whose main issue, as I recall, I think it was the main issue, was to have more inflation. I mean, it's just amazing. So, it's a truly -- and I guess it, sort of, highlights that the insularity of the Bank of Japan in not seeing this ended up forcing the political system to take action. So, the book really tells you the inside story of all that. I think it's great.

A couple of things that the book talks about that accurately describe, sort of, the internal Japanese views, but in which I have a personally different view or somehow would add to a little bit, is the two things. One is on the first round of quantitative easing in Japan from 2001 to 2006. And here I actually disagree a little bit with Steve Vogel because I actually think that wasn't a big deal. And especially in hindsight.

The book says that, in fact, when they did this the average maturity of Bank of Japan holdings of JGB's fell and that's one reason why it didn't do much. But also -- and the book talks about other reasons that it wasn't seen as permanent and things -- I think the book, what it says is accurate. But I think I would say that -- I would stress that in that first QE round in Japan in the early 2000s, what I learned later -- I didn't know at the time when I was covering Japan, but I learnt later, is that the Bank of Japan only bought 10-year JGBs that had one year or so left to maturity.

And that makes all of the difference. I mean, that's like just buying T-bills. I mean, and it didn't expose the Bank of Japan to any risk. It didn't remove the duration in the bond market. And when Kuroda came in and did QE that did the opposite, it actually increased the average maturity of the Bank of Japan's portfolio and bought really long term JGBs.

And that exposed the Bank of Japan to a lot risk but it also reduced a lot of duration to market. That had a huge -- and you could see it bond yields. I mean, the second round had a massive impact on bond yields. To this day, the 10-year bond yield in Japan is zero. Unheard of. I didn't believe that could be possible. And it's a just different animal from the first round of QE, in my view and I would --.

The other -- I remember, in fact, just another anecdote. The Bank of Japan had a conference in late 2010 when Shirakawa was Governor and they wanted to learn about what we were doing in America in QE and I had written a paper with some co-authors and we were invited to present it. And when we told the staffers at the Bank of Japan, and Shirakawa as sitting in the audience, what we were doing, that we are buying your 10-year bonds and 30-year mortgage backed securities and taking of this massive risk onto our balance sheet, everybody in the room was just -- they couldn't believe it and they said the Bank of Japan could never do that. We were told it could never happen in Japan. They would never do it, it's took risky, it wouldn't happen. But Kuroda did it. So, I just -- to highlight the real -- it's a huge shift in Japan that this happened.

The other thing that I think the book gets right in terms of Japanese views but I have a slightly different view, is the whole Plaza-Louvre and this view at the Bank of Japan and other places in Japan that the US forced Japan to have excessively easy monetary policy in the 80s and that made the bubble -- caused the bubble and made the bubble worse and caused all the problems later and blame it on US pressure for easy monetary policy in Japan. I just -- I don't accept that at all. I think that is completely wrong.

I mean, what you say in the book about how people say that is right. You know, you describe those views but I have written papers on this, if you look at the history, what the US wanted was a stronger Yen and a lower Japanese trade surplus and regulatory changes that would make it easier to export to Japan and monetary policy -- we actually didn't have a strong feeling about.

We acquiesced if -- what was going on was that inside Japan there was tremendous and concern about the strength of the Yen. I mean, businesses were screaming and they wanted action taken to keep the Yen from rising anymore and it was entirely internally generated in Japan. And -- so there are two options. They could either have easy monetary policy or you could do massive foreign exchange intervention. And the US preferred easier monetary policy.

So, yes, we would prefer that because easy monetary policy at least stimulates spending in Japan and doesn't make the trade -- just stay in the trade surplus. So, in that sense, yeah, we preferred that over the alternative. But it wasn't that it was high on our list, to have easy monetary policy in Japan. So, I think that -- I think that's just trying to blame the US for something that was entirely the Japanese mistake and the problem is that they are paying too much attention -- too much attention was paid to the Yen at the time and not enough to the overheating economy. Even though the Yen was strong and people didn't like it, the economy was overheating and the Bank of Japan didn't see that. So that was -- I don't, I wouldn't blame it on the US.

But my final point is that the book is very much focused on the process of ideas about monetary policy in Japan and how change came in the end and how we have a new policy that's different. But it is somewhat non-committal about whether this new policy is the right policy or working. I mean, you know, it's sort of thinks that maybe it is but it doesn't really a cheerleader for Abenomics.

So, let -- and I think, you know, I think the readers want to know. I mean, was it this a change in the right direction or not or did it matter. And I would -- I am just an unabashed supporter of Kuroda and Abe and I think that what they are doing is right. It's unfortunate that they claimed too much for what it could do too soon and even I am a little surprised on how long it's taken inflation to rise but it is slowly rising.

Unemployment is now at a 25 year low. I just put out a blog post with colleague Takeshi Tashiro, who is sitting here. We just put a blog post out yesterday at the Peterson website, sort of, explaining all this. It is working, it is working slower than you might have thought but what it says to me is that the potential output in Japan was higher than people thought, that the natural rate of unemployment was lower than people thought.

We used to think the natural rate of unemployment in Japan was two percent -- two, two and a half percent but for a long time it was around four or five percent and we began to think, well, maybe that was the natural rate. Well, that was wrong. It was always two and a half. We have now come back to two and a half after 25 years of being above two and a half. That's a tremendous achievement. But only now would you even expect to see any inflationary pressure because you need to put your economy above potential to get inflationary pressure.

I mean, I guess one thing maybe some people thought that just saying you get inflation would create inflation. But I don't believe in that. I think you have to do things to create inflation. You have to over-stimulate the economy. And that's a good thing for Japan to actually be above potential for a while, for a change and actually have a lot of the job creation and put pressure on prices. And it's slowly happening.

And so, I mean, the only worry is that to get there, the JGB, all the 10-year JGB, although now it's zero, which at this point buying more JGB is, in my view, doesn't do much because you really don't know when you can push it below zero. So maybe the Bank of Japan should be buying more equities, more ETFs in real estate or maybe we need some more fiscal monetary coordination for a while, I don't know. But even if don't get that, if we don't get a bad shock, I think we will slowly get back to two percent inflation. I think it's on track.

So, it should continue until you reach the objective. It's very important to, in my view, to achieve -- if the Central Bank says it wants two percent inflation, then it's important that it does what it needs to do to get there. And so, I think, it is working slower than anyone would have liked. But it is working and it's actually achieving remarkable results in Japan, where they are no longer in deflation, the core headline inflation in one and a half but that's not going to last because it's mostly oil prices. Core inflation is rising slowing. It's half a percent and I think it will take another couple, two three years to get to two but I think it will.

MS. SOLIS: Terrific really. Wonderful comments. So much on the table. I want to give the opportunity first to the authors of the book to respond. Three, at least, three issues jumped at me. I would like emphasize but obviously there may -- there are many others that you want to pursue. I think a fundamental question is, is there a puzzle to explain or not. Second, was the Bank of Japan really acting with ideological blinders or it was just a case of miscalculation and how much or how far to go.

And third, I am very glad that Joseph also brought the discussion to the current situation and I would like to get a statement from the authors as to what is your evaluation of this activism in monetary policy, where we are at today in the policy to try to bring inflation to two percent. And we are even now discussing risks of this strategy and exit, maybe it's too premature.

But again, what is your assessment of what has happened since policy shifted gears so dramatically. So -- and any other questions, of course, there was so much raised that was very important that you would like to discuss.

MS. KATADA: So, thank you very much for wonderful comment and I really appreciate learning from you two. Maybe we can do a sequel on this book. So, I think I would like to address the second question of the ideology and ideology and how is this, you know, kind of question on policy ideas.

I think we would like to still insist that the policy ideas mattered quite a bit. And there is a certain, kind of, a clear direction that that policy ideas are biased towards or -- or, kind of, bias probably sounds a bit loaded but still it has a certain tendency.

But at the same time, I would like to know, you know, former Governor Shirakawa just published a book which is like this thick. So, I haven't read it yet. But the commentary of this -- it's -- from the newspaper is that, you know, he also again emphasized the uncertainty that our economists are working with and especially on the monetary policy which is very hard to really get the, kind of, complete grasp of what's going on and in many parts of the whole picture.

So, you know, by even taking that uncertainty and I think that's where we are starting from. Even though there is a lot of debate and those who are engaged in debate, like you know, Joe has just done, it has a really strong position one way or the other. But I think fundamental uncertainty is quite prevalent in this. And the -- when this environmental uncertainty, our policy ideas really guide the policies of certain institution. And I would like to, kind of, insist on that part. So, I will -- yeah, I will take and then maybe you to -- Gene.

MR. PARK: So, on the question about the nature of the puzzle and instead of how puzzling is it, I think that both the discussants really, kind of, agreed that the GFC did, kind of, push the hand of the Bank of England as well as also the Federal Reserve and I think that that's really indisputable. So, I acknowledge that point.

But I think that even if we strip away those comparisons and we just look at the Bank of Japan, there is still a puzzle there because Japan was the only industrialized democracy to go through such a long period of deflation. And so regardless -- I mean, obviously I think a crisis lowers probably the political broader action and can, you know, jumpstart more radical maneuvers but still I think that doesn't negate the fact that the Bank of Japan had many critics of its policy, had been going on and suffering from deflation for a very long time but arguably very high social and economic costs. And there was political pressure as well. So, I think, even without that comparison there is a puzzle.

And on the assessment issue, that's an interesting point. Talking about uncertainty, we had this conversation many times among ourselves. We started probably around 2013 thinking about this project and writing. And it was really unclear what's going to happen. You know, there was some disagreement amongst us about how to emphasize that, partly because of a future Japanese audience. And this issue is so polarizing. So, we didn't want it to be seen purely from the lens or of as pro or against.

You know, I have presented this, you know, parts of this project in Germany, in Sweden, in the US and also in Japan. And when we do this in Japan, nature of the response is completely different. I think which also reflects that, you know, Japan and many people within Japan and economists of Japan, see the world differently and it always, kind of, quickly reverts to, you know, are you pro-Abe, Abenomics, are you pro-Kuroda and we had a lot of critics about QE in, you know, that really isn't the central, sort of, kind of, thrust of our argument. You know, personally also there was some disagreement amongst us. I tended to be a little more positive in taking the, kind of, normative stance in terms of the assessments but we had other considerations to make. So, thank you very much.

MS. KOJO: Okay. Thank you very much for your comments and so, about the third point of assessment, as just Gene told that we had a lots of discussions but we couldn't figure out which -- what kind of, how they say, assessment, we should do. And so, but just -- Saori mentioned just Shirakawa, ex-Governor Shirakawa, published a book and he said that -- okay.

MS. SOLIS: Maybe closer to the mic. I think that they --

MS. KOJO: Okay. Oh, okay. Oh, sorry. Where I should start? (Laughter). Okay. As for the monetary policy as a tool, I think the monetary policy used to be a kind of neutral, that insulated from political discussion. But the crisis happened and then the monetary policy became a, kind of, how to say, in the middle of political discussions. So that there is -- I mean, that the monetary policy is nowadays politicized a lot. So, it's a kind of very difficult part. So, that is, I think, maybe delayed it due to the lots of crisis happened now. So, that's a problem of monetary policy in terms of political sense.

MS. SOLIS: Thank you very much. I find it really interesting how much you have shared that when it comes to the assessment of unconventional monetary policy, when you present in different countries the reaction is very different but also that the authors have very different views and I commend your cordiality in managing to get to the book a finished product, when there is this debate amongst yourselves and how politicized the conversation seems to be in Japan about the policy.

I am sure that the audience may have other questions about this and the other element. So, now we are going to bring in all of you to the discussion. There is a mic going around. So, if you can just raise your hand and when you get the mic if you can identify yourselves and then ask the question. So, here -- Tobias. And thank you to Joseph Gagnon. He has to leave. Thank you.

MR. TOBIAS: Hi. Tobias here from [inaudible]. Congratulations. I have really been looking forward to this, ever since you told me you are working on it. So, you know, it's really exciting to hear.

I have more questions than I can probably ask. I am going to focus on one because it does seems that -- and I don't -- maybe you get into this in the book but, sort of, touchdown but maybe it could have been explored a bit more but -- I mean, to what extent was the BOJ, sort of, a battleground in the transnational battle of ideas about monetary policy, right. You talk about the Bundesbank, you talk about the Bank of International Settlements, you look at the, kind of, the reflationary school that brought these ideas, right. You had this, kind of, political out group that suddenly found themselves on in the inside after 2012. But, you know, they were taking ideas from Bernanke and Krugman.

So you had your, sort of, this -- sort of the development of unconventional monetary policy ideas during the 2000s, sort of, moving into the center elsewhere. And then, sort of, finally you being imported in Japan. So, you had this -- I mean, to what extent do you talk about these dynamics that, you know, Japan isn't or is part of this transnational network of ideas about monetary policy and Central Banks. And, you know, that battle was fought for a long time. Then finally, you know, they won their big victory in 2012. But, you know, you did have this process. So, I don't know how -- you know, if you can talk about that and how that played out?

MR. PARK: Yeah, great question. We do look at that at the book because as you mentioned there was a battleground, there were people that were outside of the network that really disagreed with the Bank of Japan's policy within Japan as well including Hamada Koichi, formerly of the Yale University, who is also a close adviser to Abe informing his -- he was putting up a brain trust to pursue his reflationary policy. There was also -- there were also people like Takatoshi Ito at Columbia University as well that really disagreed as well.

And another person that, kind of, features pretty frequently in our book was the former BOJ Policy Member, Nakahara Nobuyuki and he was someone who didn't buy the BOJ, kind of, world view and this was, you know, in around like 2000-2001 and he introduced the first proposals for QE which were rejected. He basically introduced them in every single policy meeting and they were objected by everyone except for him and he was someone who was, you know, going out and talking to economists from around the world. And, you know, getting them on the phone and discussing policy ideas with them.

So, he is kind of the exception that proves the rule to some extent and, you know -- part of what we really focus on is the dynamics of who gets nominated. And so, who gets nominated was heavily influenced by the BOJ and also the Ministry of Finance who had fought over many issues but at least when it came to unconventional monetary policy, saw eye to eye. And so, Nakahara was appointed because he happened to be a personal friend of [Fukui] and so, he is, you know, one guy that, kind of, got in through that personal connection that really, kind of, won against the grain of the BOJ's ideology. But I think the larger debate though is extremely important and we do touch on that. Great question, thank you.

MR. KENNEDY: Oh, thank you. Yes. Hi. I am Anthony Kennedy. I am a recent graduate from SOAS at the University of London. My main question is, were there any lessons from the 1990s financial crisis that the BOJ did or didn't employ that could have eased Japan's deflationary climate? That's it.

MS. KATADA: You are talking about the asset bubble bursting in the 90 -- early 1990s or the late 1990s?

MR. KENNEDY: Late.

MS. KATADA: So, obviously that was part of the first round of BOJ's actions. Obviously that's the time -- exactly the time deflation started as well as the BOJ's de jure independence came about. And resolving that financial crisis was one of the key feature of BOJ at least, you know, kind of, accepting to do the zero interest rate policy as well as, kind of, first QE. So, it was crucial.

I mean, BOJ was very aware of how financial sector is so crucial in getting Japanese economic back on track. So, this was documented in the case study chapter, where how that was a major scene and the timing and so on, were coordinated with the government, in order to help the financial sector recover and implementation of that whole reconstruction plan to be successful. Do you want to say something? Okay.

MR. WESTLEY: Hi. Thank you. Glen Westley from Inter-American Development Bank but now retired in World Bank. But my question, kind of, stretches you guys a little bit into other places. One is, I wondered if you could comment on the debt overhang that Japan now has how it might deal with this? And secondly, after 20 years of deflation why is QE finally implemented? Why wasn't it thought of and done a lot sooner? And I wonder if the role of the education system, perhaps not fostering enough creativity, might have played a role.

MS. STALLINGS: I am Barbara Stallings from Brown University and

Tsinghua University in Beijing. First to the question, is there a puzzle? I also am a little unclear as to whether there is a puzzle and Gene Park talked about long term deflation having high socio-economic costs. It seems that this is a classic example of the frog in the pot of hot water. And it gets turned up, up, up and they don't notice that they are boiling and about to die, right?

One certainly read in the newspapers and my friends in Japan would echo this, we are a high-income country. One of my friend said, they want us to buy all this additional stuff. But he said, if I bought a larger television, I would have to get a new apartment because it won't fit in the front door.

So, no one, it seemed to me, at least that I knew thought that this was such a big problem. The economists certainly thought it was a problem or at least some of them did. I mean, your Policy Board didn't seem to but some certainly did.

And then I also want to just underline the idea, the lack of a financial crisis. I did some work on some other Asian countries also in comparison to some Latin American countries and the lack of a financial crisis in 2008-2009, compared in the Asian case to the late 90s, was incredibly important. Economic problems, but that is not at all the same as a financial crisis which demands much more instantaneous or short term kinds of remedies than economic crisis which is, again, longer term and one can think one can deal with it in time.

MS. SOLIS: Thank you. Comments from the panelists.

MS. KATADA: So, if I may -- may I?

MS. KOJO: Yeah. Yeah.

MS. KATADA: So, if I may address to Barbara's question about this boiling frog in a -- well, no -- frog gradually boiling in water. You know, I think it's kind of interesting. I think it's still a puzzle in the sense that, yes, I understand -- you know, I go back to Japan quite often, people are very happy with where they are, safest country in the world and this and that.

But so, then -- yes, I understand that politicians would not reflect on that. They don't care because that's not the kind of thing has any electoral consequences. At the same time I think economists and those who are at the -- no, Bank of Japan and Ministry of Finance has to be much much more worried.

But the dynamics was reverse, right. Abe and all these politicians, kind of, heightened on this deflation to be the enemy number one and the BOJ and -- no, Ministry of Finance, kind of, thinking, well, you know, not too fast, kind of thing. So, even if you spin it in that way that deflation is not felt by people, I think it's still a very, kind of, puzzling political question.

MS. STALLINGS: Which is why Abe made this --

MS. KATADA: Maybe so, yes. But that is -- again, why did experts who should know this long term consequence and who are in -- you know, in the guardian state of really having to tackle this, didn't do as aggressively as they could have. So, in that sense, I think, it's a puzzling thing, yes.

MR. PARK: I am going to add to that really quickly. Actually, Saori and I are in another -- her graduate students are working on a project looking at whether legislators are responsive to deflation. It's a, sort of, quantitative analysis. And we find that they are not. But they are very sensitive to inflation.

So, your basic point is right and in fact the BOJ keeps a survey data and it shows, you know, the most of the 2000s up to now, really that people like deflation. Or either like it or feel neutral but again, I think, you know, the role of central bankers is very different.

And ultimately why did Abe act? He probably acted because he saw that there was probably foregone economic outputs, right. You know, Japan had been the so-called sick person of the industrialized world, there was a political opening and he was right. And it's paid off handsomely. I would argue potentially that, you know, the degree of Cabinet instability was due to Japan's long deflation and, sort of, economic stagnation. So, I think there was this, sort of, political logic for him to do so.

On the question about the debt the overhang, that certainly plays very heavily into the discourse about QE potentially being dangerous, right. And one of the, sort of, concerns is that, okay if the Bank of Japan is financing this highly indebted government that has a, you know, moderately high deficits, that makes it easier for them to run up debt because there is less external market constraint on them being fiscally irresponsible.

But, you know, as we have discussed in our book, there is a good case to be made that deflation made their debt overhang a lot worse because it's really bad for our revenue. Inflation generally is good from a revenue perspective and Ben Bernanke here at Brookings Institution have done, sort of, back of the envelope calculations and suggested that the, you know, debt-to-GDP ratio would be significantly lower if they had had higher inflation and other people have made similar analyses as well.

Also, Joe Gangnon, in a piece, argued that Japan essentially because it has a larger debt, needs to have larger interventions in -- through quantitative easing in order to get the same effect that a country that had less debt would get. So, that would be actually a case for bigger and bolder quantitative easing potentially.

And on the education system, you know, one peculiar thing -- I don't know if I would go that far and we didn't investigate that angle but almost every recruit to the Bank of Japan is hired with an undergraduate degree in -- and usually in economics. So, they are not coming in with Master's degrees or PhDs.

And sometimes they get sent abroad and get a Master's degree and in rare cases they get PhDs. There aren't may PhDs within the institution and those that are there, tend to be, kind of, cloistered together in the Research Wing, which does not have that much influence in the monetary policy making, generally speaking.

So, maybe it's not about the education system but again at how they are plucking these people out as undergrads and, sort of, socializing them. That was more, sort of, central to our argument at least.

MS. SOLIS: Thank you.

MS. FRANCISCO: Hi. I am [Ella Francisco], [inaudible] following the Japanese economy. That was a very interesting discussion and summary of the book. I am trying to think about the future and how the Bank of Japan is behaving now. Whether they are still -- you think they are still acting, kind of, in group thinking. Maybe now they went all the way. Now they want to be like the rest of the developed economies. They keep on having the two percent inflation target. Maybe some people are calling to reduce it and call it a victory instead of just pushing expansionary monetary policy for longer.

Some people think they are being successful and inflation is increasing very slowly but other people think that, you know, monetary policy has a limited ability to affect the economy and they are never going to get to two percent. They are losing credibility. Why not just reduce the inflation target to one percent and be different, right.

Now it's group thinking, we want to be like every other developed country and keep the two percent. Why not just change it? Maybe we, you know, we are different in other ways, therefore reduce inflation to one percent and move on. Are they worried about the size of the quantitative easing, the assets in the balance sheet of the Bank of Japan? Maybe. How are they going to get out of it? Like, how would you think or have things changed for the future? That would be my question. Thank you.

MR. MOSETTIG: Michael Mosettig, PBS Online NewsHour. Also pitching forward a little bit. I have seen some articles in the western press, I think primarily the Financial Times, expressing a concern that there may be a desire to tap on the brakes both in monetary and fiscal policy. But things are so delicately balanced that if you tap too hard you could push the country back in to recession the way that consumer tax did a few years ago.

MS. KOJO: I think as for the -- sorry. As for the question of group thinking, I think you mean the Policy Board decision?

MS. FRANCISCO: [inaudible]

MS. KOJO: As far as the BOJ Policy Board is concerned, I think the Abe, Prime Minister Abe, hired the almost similar ideas people into the Policy Board. So, and I think, Policy Board is supposed to be a diverse opinion, in my opinion. And so, then they created some decision. But in terms of the knowledge base, the Policy Board is, kind of, a similar person in the Board. So, that means maybe the kind of group thinking, right. It's very difficult for the people to raise a different idea from that kind of a situation.

MR. PARK: Yeah. I want to, sort of, emphasize that point. I mean, it's pretty remarkable, I don't know if this has happened in many other countries but Abe has been in power long enough to have replaced every single person on the Monetary Policy Board. And so, I was just looking at some of the votes last night and the dissenter has been one guy who is a dissenter, who has is a recent appointment, the Deputy Governor Wakatabe and he is actually pushing in a more anti-deflationary direction. He really wants to stimulate more inflation. So if there is any, kind of, dissent it's in that direction. So, there is, I think, everything does reflect Abe.

But what's happened and what's fundamentally different is that monetary policy is fully now in the political debate. So, opposition parties are saying, okay, we have should have a one percent target rather than a two percent target. So, it's become a complete political football. So, the network will never be as closed as it was. The BOJ has lost control over it. And so, I think that game is over.

MS. KATADA: Okay. So, this kind of reveals our political debate here with -- especially Gene and me. But, you know, I think there are a lot of concerns in, you know, going forward. And I just read in Nikkei newspaper that IMES is the think tank of the Bank of Japan and there are some very, kind of, prominent, well known report coming out of negative impact of QQE as well as negative interest rate.

And they actually saw Bank of Japan as the bigger entity and then Policy Board are the, kind of, half external and half internal entity that makes the policy decision, monetary policy decision. But this research think tank, kind of, signals things that BOJ proper, the big institution, kind of, is thinking about and sometimes they, kind of, signal that. And the fact that this came in English, her name is Junko Koeda, I think, is the author. And that came in English, that's criticizing QQE and negative interest rate, just like a month ago, really signals some of the concerns.

And especially again looking at Japanese newspapers, maybe that's the source of information that makes our view somewhat different. But Japanese newspapers are talking about the fact that, well now that this, you know, trade war is going on, China's slow growth is, you know, impending, you know, US might be facing a recession going forward in the next year or two -- you know, Bank of Japan doesn't have any instrument beyond what it has done so far to really, kind of, get back at that kind of a -- address that kind of a slowdown.

You know, yes it's true that I agree with Joe Gagnon, that now the Japanese economy is doing quite well in a relative sense but now when the crisis hit, what does Bank of Japan have in their own arsenal that it's being used or used up. So, you know, obviously, you know, buying more stock is probably the only one that's been, you know, discussed as a possibility but then, you know, then all Japanese stocks will be purchased by the Bank of Japan and that's not going to be good for economy overall.

MS. SOLIS: So you guys have an interesting debate going on. (Laughter). Let me bring Ben and if there is another question, we can take two at a time. We will start with Ben.

MR. SELF: Thank you, Maria. I am Ben Self of the Mansfield Foundation. I want to congratulate you. It's a wonderful accomplishment and I really enjoyed your presentation about the book. Former life, I was a constructivist. I was looking at Japanese security policy through the lens of ideas. And I am surprised not to hear the word constructivist but I am glad that approach has reached the study of the Ministry and especially the Bank of Japan. But one of the challenges, analytical challenges, is that ideas, aside from being amorphous, are often intervening variables rather than independent variables.

And they are often the result of interests. So, where you stand depends on where you sit. Means that most of these policy positions on different issues can be traced back to an interest, whether its asset holder's interest in assuring that, you know, maintenance of the value of their assets or national security actor's interests in larger defense budgets and so on.

So, I just wanted to tie that into Steve Vogel's very important point about the proximity of the meeting and the decision and both of those being shaped by interests feeding in well beforehand. That how do you rule out the influence of powerful interest groups shaping the way these policy makers think? It is an intervening variable. You can definitely define it as having an influence. But is it an original variable or is it really just a step in the policy process that fundamentally drives from interest groups? Thank you.

AUDIENCE MEMBER: Thanks. Bill [inaudible], George Mason University.

Low interest rates are generally harmful to retirement fund -- funding and also to retirees who are trying to live off savings. You mentioned negative interest rates. So, I don't hear much about that here. May it is spoken about here but what about in Japan. Do they -- is that a big part of the discussion? How low interest rates are harming retirement security?

MR. PARK: I will take the first question. Saori, will take the second question. I think these are great theoretical questions, right. So, do ideas reflect interests, right? Someone could pretend to use a rhetoric and not be sincere about it, right, and be motivated by some material interest, hypothetically.

MR. SELF: [inaudible].

MR. PARK: Right. Right. Right. So, I mean, the one thing that we talk about in our theoretical setup is that the -- you know, there is an interest based model of monetary policy but it focuses largely on the interests of politicians and their electoral incentives, right. They want to get elected, they want a juicy economy, they put pressure on central bankers and that's the basic model.

What's completely missing, of course, is what central bankers think and how they see they world and whether they are going to be responsive, what their preferences are towards inflation or deflation. And that is completely missing from all the models of political economy and that's where we, kind of, see our work, kind of, fitting in.

Now there has been one person, Christopher Adolph at University of Washington, who has tried to argue that central bankers themselves have certain material interests, right. They think about getting some cushy job in the financial sector afterwards, right. And he has this complex, and a sophisticated, very sophisticated model.

It really doesn't apply to Japan though. We went through and looked at all the Governors and the Deputy Governors. Not one single one has followed that trajectory into some kind of lucrative financial position. By the time they retire they are at the end of their career like, you know, Kuroda is in mid-70s at this point. Everyone -- Shirakawa was the youngest. I think he was just before 70 when he retired. And again we looked at their academics -- and thanks. We went and looked at actually their paths. And so, that model doesn't fit.

So, there are potentially other interests that may matter but these are organizational interests, right. And so, those organizational interests and the ideas are, I would grant you, very difficult to separate out. But, I think, these, you know, organizational interests and these ideas have this very very tight relationship. One is, you know, not to get entangled too much politically by taking on risks which then may, sort of, come back and hurt the Bank of Japan, you know, its independence and things like that. So, there are these interests but they are not, you know, classical material interests.

MS. KOJO: Also the, I think, the Japanese monetary policy, I think, idea matters. But I don't know whether in other issue area and in other countries, I think, monetary policy is very very -- yeah. Good for the example of idea matters. Yeah.

MS. KATADA: So, let me address this retirement and -- you know, Japan is obviously very, kind of, aging society and all that is very crucial. So, at the beginning early stage of the new BOJ after 1998, there was one of the Policy Board member, Professor Shinotsuka, right, who was an economist and who opposed any kind of easing because of that pension, pensioners and how the people's living standards will be jeopardized because of the fixed-income people jeopardized because of that. But she was always kind of a outlier along with Nakahara that voted on the other -- totally the other direction. So, that was relevant then.

These days though now, all the pension fund -- well, not, all the pension, significant component of pension funds are now invested in stock market. That's the kind of way in which Japan has, kind of, shifted that model. So, Abenomics in some ways is so far working fine for the pensioners because the pension fund has been sustained by the growing stock market and that kind of the, you know, stock market going up. While the danger is, well, I don't know, that kind of obviously expose it to the uncertainty.

I think, just having said that, all these, kind of, mechanisms but, you know, I think, the Japanese population are now used to not having any major return on the savings or investment. You know, 0.15, yeah, 0.15 is the norm and so that hasn't been a major up blower as long as the government can manage to pay the social security and stuff, which again is getting to be precarious because of the sustainability of that long term too.

MS. SOLIS: Wonderful. I want to congratulate the authors for this really tremendous volume, this book. I want to borrow Steve's term. It's a tour de force and I think that they have shown that in the conversation today.

Before you leave, you have an opportunity to get your own copy of the book. There is a table at the back of the room and please join me in congratulating them for their publication. (Applause).

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I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

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