「資料1」

Beyond the Great Malaise and Financial Stability towards Robust and Sustainable Growth

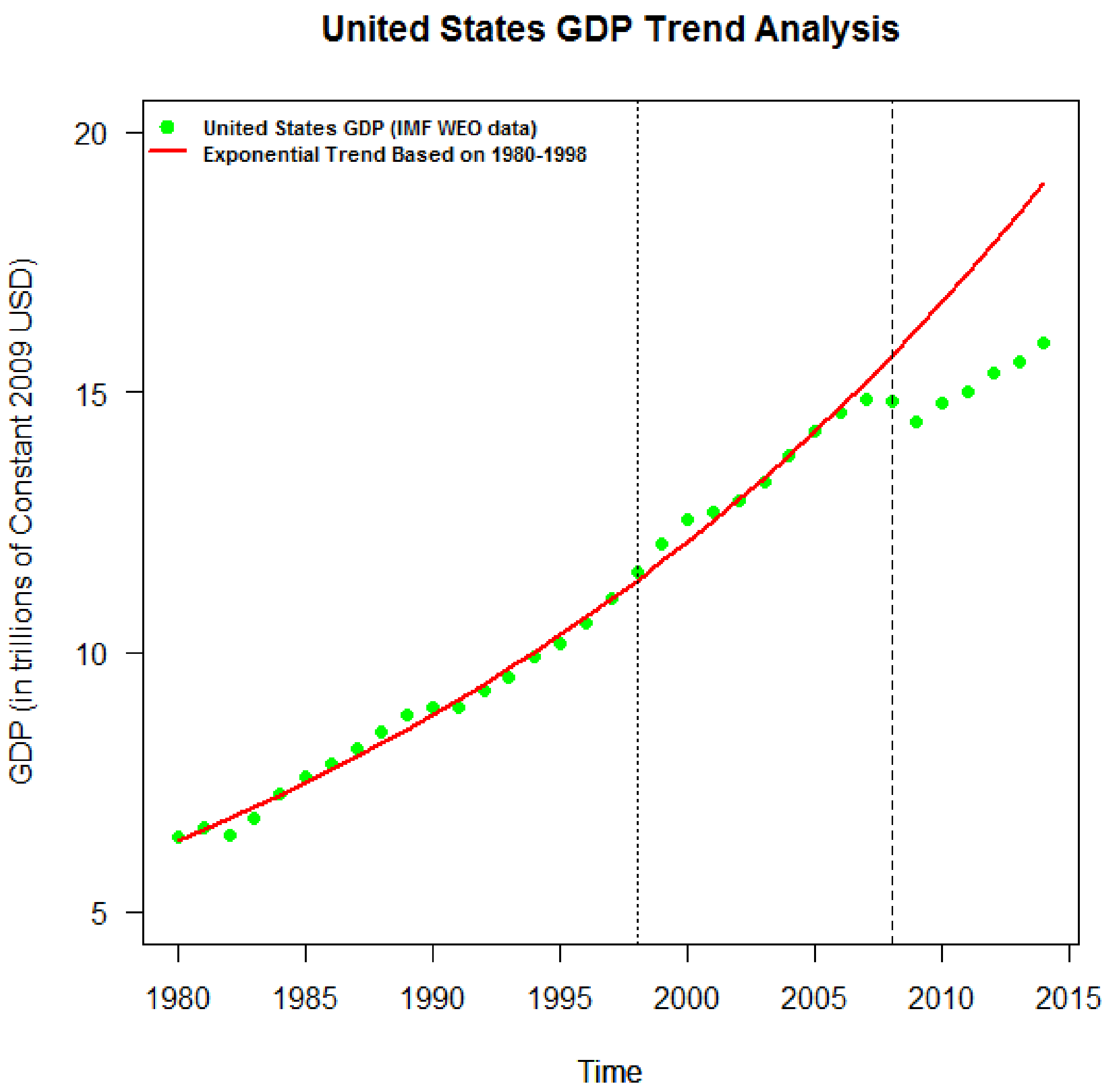
Joseph E. Stiglitz
Tokyo
March, 2016

I. Where we are

- Slow growth—Great Malaise, New Mediocre
  - Not a crisis *yet*
  - But with persistent moderately high unemployment (in some cases disguised) in many of G-7, higher unemployment among youth and marginalized groups
  - Disproportionate share of slow growth going to a few at the top—growing inequality, wage stagnation
    - Even in countries with low "official" unemployment, raising questions of quality of job growth and disguised unemployment
  - World economy was weak in 2007, before crisis
    - Only sustained by a bubble
    - Restoring the world to 2007 simply restores us to the weak economy we had then
- Mixed prospects—small probably of returning to robust growth, large probability of recession or worse
  - Justifiable concerns about asset price bubbles that might deflate
  - Emerging markets facing massive capital outflows, with many countries and companies over-indebted

Underperformance of US Economy

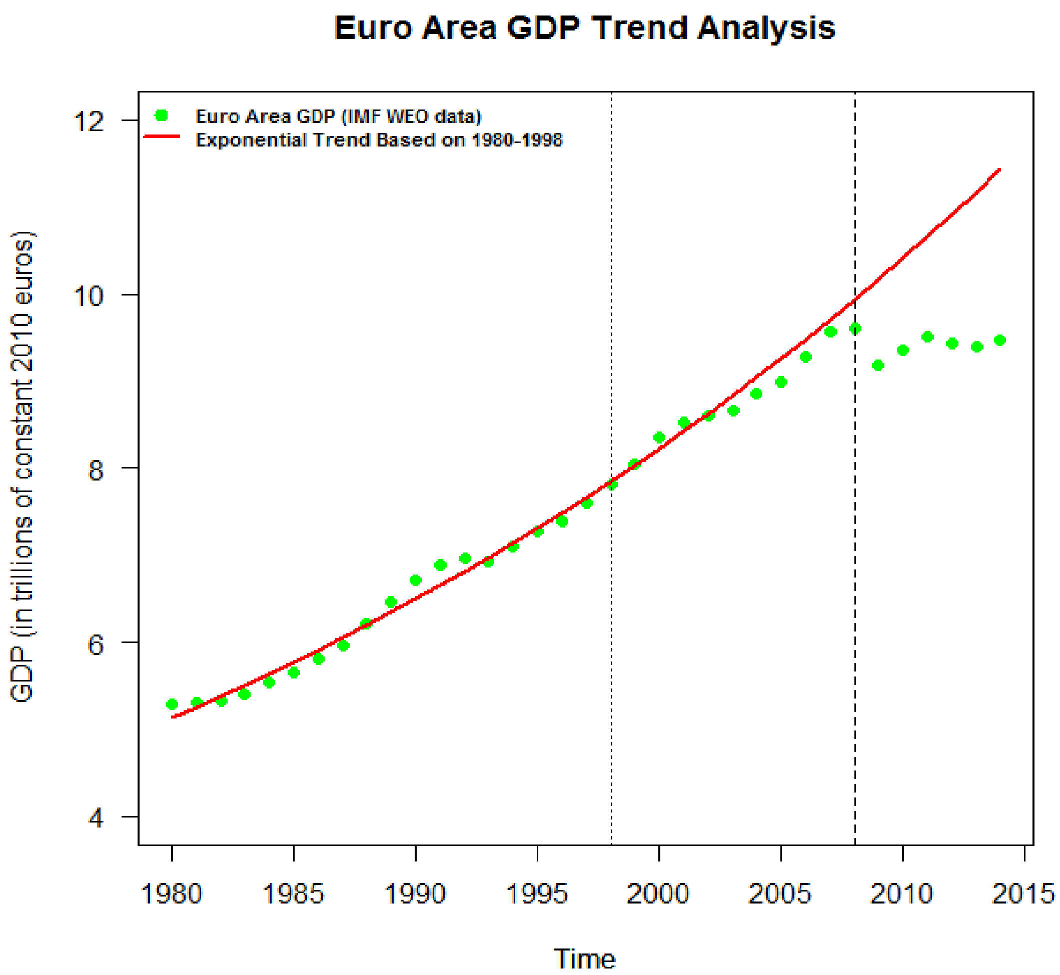
- GDP some 15% below what it would have been had the growth rates that prevailed between 1980 and 1998 continued
- Percentage of the working-age population employed lower than it was in the early 1980s, when women were entering the workforce en masse
- Median real (household) income is less than 1% higher than it was in 1989
- Real wages at the bottom are lower than 60 years ago
- African-American youth unemployment rate is still 23.7%


United States GDP Trend Analysis
United States GDP (IMF WEO data)
Exponential Trend Based on 1980-1998
GDP (in trillions of Constant 2009 USD)
20
15
10
5
1980
1985
1990
1995
2000
2005
2010
2015
Time

Europe is even worse

- With higher levels of unemployment
- Especially youth unemployment
- And lower levels of growth
- **Euro crisis is not over—**only under short term "remission"
  - **Haven't created institutions that are necessary to make a single currency work, and not likely to do so at time soon**
- Gap between where they are and where they would have been growing

Dismal European performance since crisis



China

- Has been driver of global economic since GFC
  - Advanced countries affected directly and indirectly
- Likely to be significant slowdown
- Europe and US not likely to be able to make up for the slowdown of China’s economy

Misdiagnosis of the Great Recession

More than a financial crisis

- Banks' balance sheets are largely restored
- Some regulatory reform (Dodd Frank)
- Yet economy is not back to health
  - Insufficient attention paid to improving credit channel
  - Helps explain why monetary easing didn't help as much as hoped

Misdiagnosis of the Great Recession

More than a balance sheet recession

- Balance sheet of large corporations largely restored
- It is not corporate balance sheets or their access to finance that are holding them back from investing
  - It is lack of demand.

Further concerns

- **Persistent Global imbalances**
  - Eurozone has exacerbated problem
- Asymmetrical adjustment
  - Countries (firms, households) facing a decline in income have to reduce consumption
  - Those with increased income do not expand spending symmetrically
  - **Response to changes in oil price illustrates**
    - **Many had expected lower prices to increase demand, but adverse effects of “losers” more than offsetting these benefits**

Diagnosis of the central problem

- **Lack of global aggregate demand**
- Combined with insufficient efforts in each country to support non-traded sectors
- Excessive reliance on debt, financialization
- More broadly, in large parts of advanced countries about a third of a century ago, there began a process of rewriting the rules of the market economy (redesigning tax structures, ill-thought out liberalization) that led to slower growth, more instability and more inequality—just the opposite of what was promised

Great malaise hides deeper problems on which there is being made remarkable little progress

- **Climate change**
- **Inequality**, large number of individuals in poverty
  - With many dimensions—inequality in wealth, health (in countries relying on private provision of health care), and access to justice
  - Hollowing out of the middle in advanced countries—and even in developing world
  - Problems especially severe for marginalized groups and (often) youth
- Deep **structural transformations** needed to achieve sustainable growth
- Deeper problems in market economies leading to **productivity slowdown**
  - Short termism in both private and public sector
  - Insufficient investment in basic research, and in many countries, infrastructure
  - Excessive financialization, part of process, part of cause
    - Opening up major gaps between wealth and capital
    - Capital output ratio in many countries going down even as wealth output ratio increases
  - Failures to adapt education system

II. Responding to the situation

Conflicting views about obvious instruments: monetary policy

- Monetary policy has largely run its course
- **Never very effective in deep downturns: the only effective instrument is fiscal policy**
- Real problem **not** zero lower bound—slight lowering of interest rates (into negative territory) will not work
  - Experiments with negative interest rates unlikely to stimulate much, may have adverse side effects
- QE increased inequality, did not lead to significant increase in investment (if any) and because of financial market imperfections/irrationalities may have led to mispricing of risk and other financial market distortions
  - One of main benefits was competitive devaluation—but that's a zero sum game
  - In absence of adequate fiscal policies, "only game in town"—matters would have been worse in its absence

Conflicting views about obvious instruments: fiscal policy

- Worry that fiscal policy risks damaging build up of debts
  - View that fiscal stimuli in 2008/2009 didn't work is absolutely wrong
  - Reduced unemployment from what it otherwise would have been, prevented deeper recession, depression
  - In crisis, didn't have time to optimize spending—but even imperfect expenditures were better than alternative of massive idle resources and depressions
  - Worry about debts is fundamentally misplaced in balance sheet approach, where government spends money on productive investments
- Effectiveness of policies undermined by globalization—large spillovers to others, costs borne at home
  - But global coordination sufficiently weak to provide "superior" globally coordinated solutions

What will *not* work—or not be *sufficient*—to restore prosperity

1. Monetary Policy
   - Underlying problem is *not* Zero Lower Bound
   - Low interest rates induce capital intensive technology, may lead to "jobless" recovery
2. Trade agreements
   - Tariffs already very low
   - With G-7 exporting capital intensive goods, importing labor intensive goods, a "balanced" increase in trade leads to lower employment
3. Misguided supply side measures
   - Corporate income taxes
4. Another dose of austerity

Some of these measures would be counterproductive

Remedies: Immediate issue—restoring global aggregate demand

1. Setting a **high price on carbon** (following up on Paris) will induce investments to retrofit the global economy for climate change
2. **Recycle some of the surpluses,** e.g. through recapitalization of development banks, or creating new development banks: would help meet deep investment needs, including infrastructure
   - Private sector has proven itself relatively ineffective in intermediation
   - Short term financial markets sit between long term investors and long term investments

Measures that would work

3. **Increasing government spending**, financed partially by taxes, will stimulate economy
    - Principle of balanced budget multiplier; with well designed taxes and expenditures, multiplier can be quite high
    - Appropriate accounting framework looks at both sides of the national balance sheet, not just at liabilities
        - Spending on education, health of young people are *investments* which improve asset side of balance sheet
        - So do investments in infrastructure and technology
    - Environmental taxes and land taxes will help restructure the economy to create sustainable growth
    - So will government expenditures to promote structural transformation and promote equality
4. Other **measures to increase equality** will increase global aggregate demand
    - *Rewriting the rules:* improving equality of market income
    - Improving on transfer and tax system
    - **Measures that increases wages and worker security**
        - **In some countries, improving legal framework surrounding unions/bargaining**
5. A **global reserve system** will reduce need for demand-reducing build up of reserves

Beyond *global* aggregate demand

- Especially as world moves to service sector economy, non-traded sector likely to be increasingly important
- Absence of *domestic* demand impairs supply
- Domestic demand is more than private *consumption*
  - Includes investment in environment, people, technology (closing the knowledge gap), infrastructure, making cities livable
- Much of this domestic demand will have to be *publicly financed*
  - Health and education are among key service sectors

A. Ending austerity

- Even the US has had a mild firm of austerity
  - 500,000 fewer public sector employees, normal expansion would have some 2 million more
- Notions of expansionary contractions and that there is a critical threshold, above which debt lowers growth have been discredited
- Even if that were the case, the balanced budget multiplier means that increasing taxes in tandem with investment spending increases GDP now and in the future

Need balanced approach to finance—debt vs. tax

- Will vary from country to country, depending on levels of debt and taxes, growth paths
  - Always need to keep balance sheet perspective
- In *all* countries, raising **environmental taxes** ("charges", including congestion fees), including carbon tax, would generate substantial revenues and improve economic performance
- So too would a **Financial Transaction Tax**
- In *virtually all* countries, raising taxes on land and other natural resources ("inelastically supplied") would raise substantial revenues, increase growth (less diversion of savings to unproductive uses)

(Cont'd on next slide)

Need balanced approach to finance—debt vs. tax *(Cont'd)*

- Lowering taxes on corporations would *not* increase investment, since most investment is debt financed, and interest is tax deductible (lowering taxes raises *net* cost of capital, and thus discourages investment!)
  - Increasing taxes on companies that do not invest in the country and create jobs may incentivize investment
- Some taxes actually stimulate spending today (carbon tax, inheritance tax)
- **Balanced budget multiplier** implies that raising taxes and spending in tandem stimulates economy

Well designed taxes would also address key issues of inequality, instability, and environmental degradation

Beyond austerity

Rethinking budgetary rules and frameworks

- **Capital Budgeting**
  - Balance sheet perspective is especially important when cost of funds is low and returns to investments are high
- Using **development banks** to promote investment
  - With well designed taxes and expenditures, multiplier can be quite high

B. Spending money well: focusing on key long run problems—lack of productivity

There has been under-investment in technology and infrastructure which is complementary to private investment

- with government support of basic research (as a percentage of GDP) lower than it was a half century ago
- wellspring of ideas driving new innovations to increase productivity may be drying up

What is need is more Investment infrastructure and technology

- since much of this public investment is complementary with private investment, private investment will be stimulated
- investment could be financed through an infrastructure bank

C. Spending money well: focusing on key long run problems—Structural Transformation

- Global manufacturing employment is in the decline
- With globalization, the advanced countries will be seizing a declining share of that employment
- Needs to be shift to service sector
  - And in some countries, improving productivity of service sector
- Markets on their own do a poor job at managing the kind of large structural transformation that is needed
  - Evidenced in earlier transition from agricultural to manufacturing
- Among the service sectors that should be taking up the slack are education and health
  - Government rightly plays an important role in these sectors
  - Austerity has constrained the ability of the government to play that role

Challenges posed by this structural transformation

- New economy may be less capital-intensive
  - So that the investment needed to support a given growth in GDP may be smaller
- Older workers especially may be ill-prepared for the new economy
  - With the aging of the baby-boomers, a larger fraction of workers are older
  - The societal costs of not retooling—of simply accepting their obsolescence—are higher
- Existing arrangements creating large issues for old and young
  - Zero interest rate environment means that old who saved prudently through government bonds have low income
  - Young can't afford to buy houses, often have to wait long time to get a job, when they get a job, it doesn't use their skills and talents, and in many countries, they are saddled with large debts

Policies for promoting Structural Transformation

- In many countries government action was central in transition from agriculture to manufacturing
- The government needs to again take an active role, including through more active labor market policies.
- Such policies only work, however, if there are jobs for the retrained workers.
  - There needs to be a comprehensive framework for restoring full employment

D. Fighting Inequality

- More than redistribution
- *Pre-distribution:* Rewriting the Rules to ensure more equitable distribution of market income
  - Markets don't exist in a vacuum: the way they are structured affects how they function, efficiency, and distribution
  - Increases in rents explains the anomaly of an increase wealth/income ratio accompanied by a decrease in the ratio of productive capital to income

Fighting Inequality

- These theories explain the marked disparity between the growth in labor productivity and real wages
  - Wedge can't be explained by standard theories—skilled bias technical change or differential savings rates
- Reduced inequality would improve economic performance, in the short term, and in the long term

See Stiglitz, J. E., N. Abernathy, A. Hersh, S. Holmberg, and M. Konczal (2015). *Rewriting the Rules of the American Economy,* New York: W.W. Norton, 2015.

III. Structural Reforms

Some basic principles

- In the absence of adequate demand, supply side reforms will increase unemployment, not promote growth
  - Moving people from low productivity sector to zero productivity unemployment
  - Supply does *not* create its own demand
  - Indeed, supply side reforms can weaken demand and lead to lower GDP
  - But well designed demand policies can increase supply/productivity, can increase GDP today and potential growth rates

Supply side measures that would work

Often working in conjunction with "demand"

- Increased investment in technology
  - Especially important as one creating an innovation economy and a learning society
- Increased investment in people—creating a healthier and more productive labor force
- Industrial policies which help restructure the economy, moving from old sectors to new
  - Markets don't make these transformation well on their own
- Competition policies—preventing the agglomeration of economic power
  - Monopolies restrict output
- Financial market reform
  - Not just prevent financial sector from imposing harms
  - Encouraging it to do what it is supposed to do, intermediate, private finance, especially for small and medium sized enterprises
  - Encouraging equity rather than debt

Supply side measures that would work

- Measures to facilitate participation in labor force
  - Good public transportation systems
  - Parental and sick leave
  - Child care
- Inclusion of groups that have been discriminated against and marginalized
  - Women
  - Minorities
  - immigrants

Supply side measures that would work

- There are many ineffective (or counterproductive) supply side measures
  - Lowering corporate income tax
    - But lowering taxes on corporations that invest and create jobs and increasing it on corporations that don’t would incentivize investment and job creation
  - Financial market deregulation
    - Leads to less investment, more speculation, instability
  - Trade measures have not had hoped for supply side benefits
    - Benefits always overestimated
      - Current estimates of TPP for US around zero
    - **Growing consensus TPP is a bad trade agreement**, will not be ratified by US Congress
      - Investment provisions especially objectionable—introduce new source of discrimination, limits ability to regulate economy in ways that would lead to stronger growth, protect environment, etc.

Other counterproductive supply side measures

- Backward looking supply side reforms also will not work
  - Reducing excess housing capacity in the US (empty homes in Nevada desert) would not have helped US recovery
  - Destroying excess chip capacity in Korean crisis (1998) would have impeded its recovery
    - Ignored option value
  - Arguments often made by those wishing a reduction in competition
    - “national champions” = oligopolies

Failure of Supply side measures

- Supply side measures in US (and other countries) in early 1980s failed
  - Didn’t live up to promise of increasing tax revenues—actually fell
  - Didn’t live up to promise of increasing growth—actually fell
    - Savings rate fell
      - Same effect seen in more recent tax cuts in beginning of 2000s
    - Labor force participation fell
  - Worries about impact on inequality more than justified—have reached new heights

IV. Financial sector and financial turmoil

- Some of turmoil is reflection of lack of transparency in financial markets
- Some of turmoil is reflection of short-sighted nature of financial markets—they have always been very fickle
- Some of turmoil is reflection of deep uncertainty about the direction of the global economy
- Some of turmoil related to failure of countries to coordinate monetary policy, resulting uncertainty in exchange rates, large movements in destabilizing capital flows
  - Facilitated by capital and financial market liberalization
- Much of the turmoil reflects failure to address fundamental problems in the financial sector
- Problem is that the turmoil is likely to have consequences for the real sector

Reforming the financial sector

- More than preventing the sector from imposing harm
  - Through excessive risk taking
  - Market manipulation, predatory lending, etc.
  - Abuse of market power
- Ensuring that it plays societal role at low transactions costs
  - providing SME and housing finance
  - managing retirement accounts and running the payments system at low transactions cost

So far, we have failed in both tasks

There is the need for broader and deeper reforms and broadening public instruments for providing access to credit

- Student loans
- Public option in mortgages
- Public option in retirement accounts

V. Global Reforms

- Need new global reserve system
  - Current system is a historical anachronism
  - Leads to biases towards surpluses
  - Weaknesses in reserve currency countries
  - A global reserve system, as suggested by Keynes and recent UN Commission would lead to greater global stability

Global reforms

- Need global coordination to reduce global imbalances
  - China's surpluses are in process of being reduced
  - But those in the Eurozone are increasing
    - Will need deep reforms in Eurozone
- Need global macro-economic (monetary and fiscal) coordination
  - Was hope that this would happen after Global Financial Crisis
  - Hasn't materialized—even greater asynchronous movements
- Need better ways of recycling surpluses
  - New development banks move in the right direction
  - But there is a need for governance reforms and recapitalization of Multilateral development banks

Finance for development

Could simultaneously recycle surpluses, adding to global demand, and promote development, but there are three impediments

- Debt markets: no international framework for debt restructuring
  - Important initiative at the UN, supported by vast majority of countries
  - But US and some European countries arguing against a "rule of law"
- FDI: investment agreements undermine the ability of countries to regulate
- Taxation of multinationals: international tax regime makes raising revenues difficult
  - Race to the bottom
  - BEPS agreement at G-20 left key issues unaddressed
  - Deeper reform of global tax regime needed

Action on climate change

- Investments to retrofit the economy for climate change would provide needed stimulus to global economy
- Environment and economic growth are *complementary*
  - Especially if we measure growth correctly
- Providing a price on carbon would provide incentives for investment
- Paris meeting was important in creating momentum, so business community realizes that in one form or another there will eventually be a price for carbon
  - Key investments (infrastructure, housing, buildings, power plants) are long term

VI. Reforms in the global decision making process

- Global economic integration has outpaced than of global political integration
- Whenever there are spillovers, externalities need for collective action
- But we have no good framework for doing so at the global level
- Global economic policy too often reflects power and special interests
  - Not necessarily focusing on areas where global cooperation and harmonization are necessary
    - Excessive harmonization of IPR rules
    - Harmonization on rules that reflect special interests, with insufficient democratic accountability—different from what might emerge from a more global democratic process
    - Especial concern that new trade agreements will impair ability of governments to perform essential regulatory functions in a democratic way
  - Focus is on harmonizing *down, to lowest common denominator*

Reforms in global decision making process

- How to increase representativeness
  - Under-representation of small and poor countries
  - Important, even if they have little weight in global economy
- How to increase legitimacy
  - UN is the international body with global legitimacy
  - IMF has similarly more legitimacy within its remit
- Danger of “club” getting together to make decisions for all
  - Undermines credibility of other organizations
- Alternative: **Global Economic Coordinating Council**
  - Operating under the UN, IMF

Rethinking global decision making

- **Variable geometry**
  - Recognizing that it will be difficult to get close to unanimity on many issues
- "Coalition of willing"—for instance on climate change
  - With cross-border taxes to induce others to cooperate
- May not be able to get all to agree to new global reserve system
  - Again coalition of willing—advantages will induce others eventually to join
- Thinking carefully about where externalities are most important
  - Absence of collective risk bearing induces high level of savings, reduces global aggregate demand
  - Global rules favoring capital increase inequality, with adverse effects on global aggregate demand
  - Global instability creates inequality, leads to high savings, both of which contribute to deficiency in global aggregate demand

VII. The World Today in Perspective

- Many of the advanced countries began an experiment a third of a century ago—lowering taxes, deregulation
- There was a need to adjust economic framework to changing economic circumstances
  - But they made wrong adjustments
- Consequence has been slower growth and increasing inequality
- Full effects are just now being felt—but they have been on their way
- If current course continues things will get worse
  - With untold political consequences—some of which we are beginning to see
- This experiment can and should now be declared a major failure
- There is a need for a new course
  - Minor changes, tweaking of current arrangements will not do

Many pieces to this failed experiment

- New approaches to monetary policy
  - Focus on inflation, rather than balanced perspective—growth, employment and stability
- New approaches to fiscal policy
  - In Europe, stringent constraints on deficits
- New emphasis on privatization
  - Extending even to social security in some countries

These too have not brought promised benefits

Experiment in new global architecture is also a failure

- Forty years ago would began experiment with unfettered capital flows
  - Was supposed to bring a new era of stability
- Markets would do a better job than governments
- Instead it ushered in new era of global instability
  - Especially associated with short term capital flows
- Now even the IMF says that there should be capital controls (capital account management)

There is a way forward

- Restoring the balance between the government and the market
- Recognizing the importance of the “third sector” and new institutional arrangements
- Ending austerity
- *Global* efforts to address *global needs, global public goods*, *global externalities*
  - Beyond climate change to include **a *global science foundation***
  - Global efforts to increase productivity—instead of a race to bottom
- Commitment to measures to increase living standards for *all*
- *Global* reassessment of how we measure progress
  - What we measure affects what we do
  - Main message of the Commission on the Measurement of Economic Performance and Social Progress
  - Work continuing at the OECD

The World Economy: The Way Forward

- The New Mediocre, the Great Malaise, Secular Stagnation are not inevitable
  - They are the result of failed policies
- In an increasingly integrated world, the *best* way forward would entail global cooperation in restoring balance and increasing aggregate demand
  - Combined with cooperation, for instance, in the provision of global public goods—research, global warming
  - Achieving that cooperation has proven difficult
  - Japan's leadership in G-7 may be part of way forward
- But even lacking that cooperation, there is much that each country can do to strengthen demand and improve productivity within its own borders
  - With significant spill-overs to others