Has Japan changed economic thinking

Tuesday 27 September 2011 12.30 – 1.30 pm, light lunch will be provided

Crawford School Seminar Series
Professor Jenny Corbett  Australia-Japan Research Centre

Acton Theatre J.G. Crawford Building, Lennox Crossing, ANU

Many elements of Japan’s economic stagnation in the 1990s are reasonably well explained in a modern, “synthesis type”, new-Keynesian model. The experience of some of the elements, such as deflation and zero interest rates, was, however, rare in contemporary experience. As a result there has been a disconnect between what is theoretically understood by economists and the public discourse about Japan’s “lost decades”. The implications for policy are not very controversial in theory – fiscal policy should work and monetary policy could work but not via interest rate transmission. But the length of time that Japan remained below its potential GDP fuelled a debate about the effectiveness of traditional policy measures. This gave rise to real questions about the first “lost decade” (1991 to 2001): why didn’t policy work? Was this some new mystery ailment for which known remedies were ineffective? These questions are still debated and they remain important because the popular reading of Japan’s experience is ill-informed and is being mindlessly applied to current policy settings. It has become part of the arsenal to criticize responses to the GFC (e.g. current US debate over the deficits) and, in some cases, is leading to misguided policy (e.g. UK draconian fiscal policy). The seminar will present the argument that Japan’s economic experience of the last two decades DOES NOT provide unambiguous evidence that demand stimulus policies are ineffective and will indicate the ways in which economic theory has been changed by the lessons from Japan.

Professor Corbett is the Executive Director of the Australia-Japan Research Centre at the Crawford School. She is also Reader in the Economy of Japan at the University of Oxford and a Research Fellow of the Centre for Economic Policy Research in London. Her research centres on current macro-economic and financial policy issues in Japan, regional financial integration and trade in financial services. She is a member of the Australia New Zealand Shadow Financial Regulatory Committee which comments on current developments in financial and monetary policy.