



14TH JACQUES POLAK ANNUAL RESEARCH CONFERENCE
NOVEMBER 7–8, 2013

Comments of “Will the U.S. and Europe Avoid a Lost Decade? Lessons from Japan’s Post Crisis Experience”

David Romer
University of California, Berkeley

Paper presented at the 14th Jacques Polak Annual Research Conference
Hosted by the International Monetary Fund
Washington, DC—November 7–8, 2013

The views expressed in this paper are those of the author(s) only, and the presence of them, or of links to them, on the IMF website does not imply that the IMF, its Executive Board, or its management endorses or shares the views expressed in the paper.

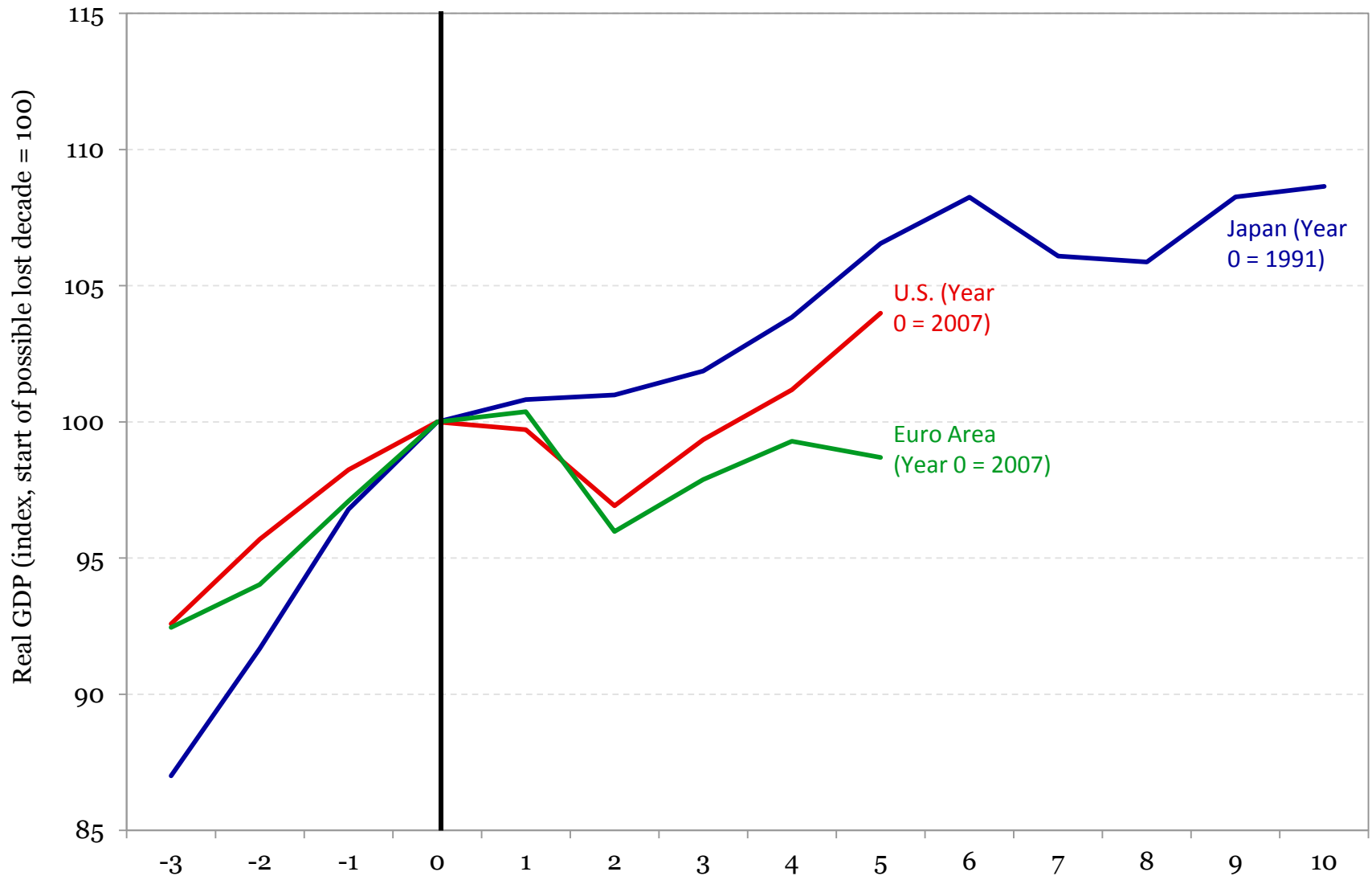
DISCUSSION OF
TAKEO HOSHI AND ANIL K KASHYAP,
“WILL THE U.S. AND EUROPE AVOID A LOST
DECADE? LESSONS FROM JAPAN’S POST-CRISIS
EXPERIENCE”

IMF ANNUAL RESEARCH CONFERENCE
NOVEMBER 7, 2013

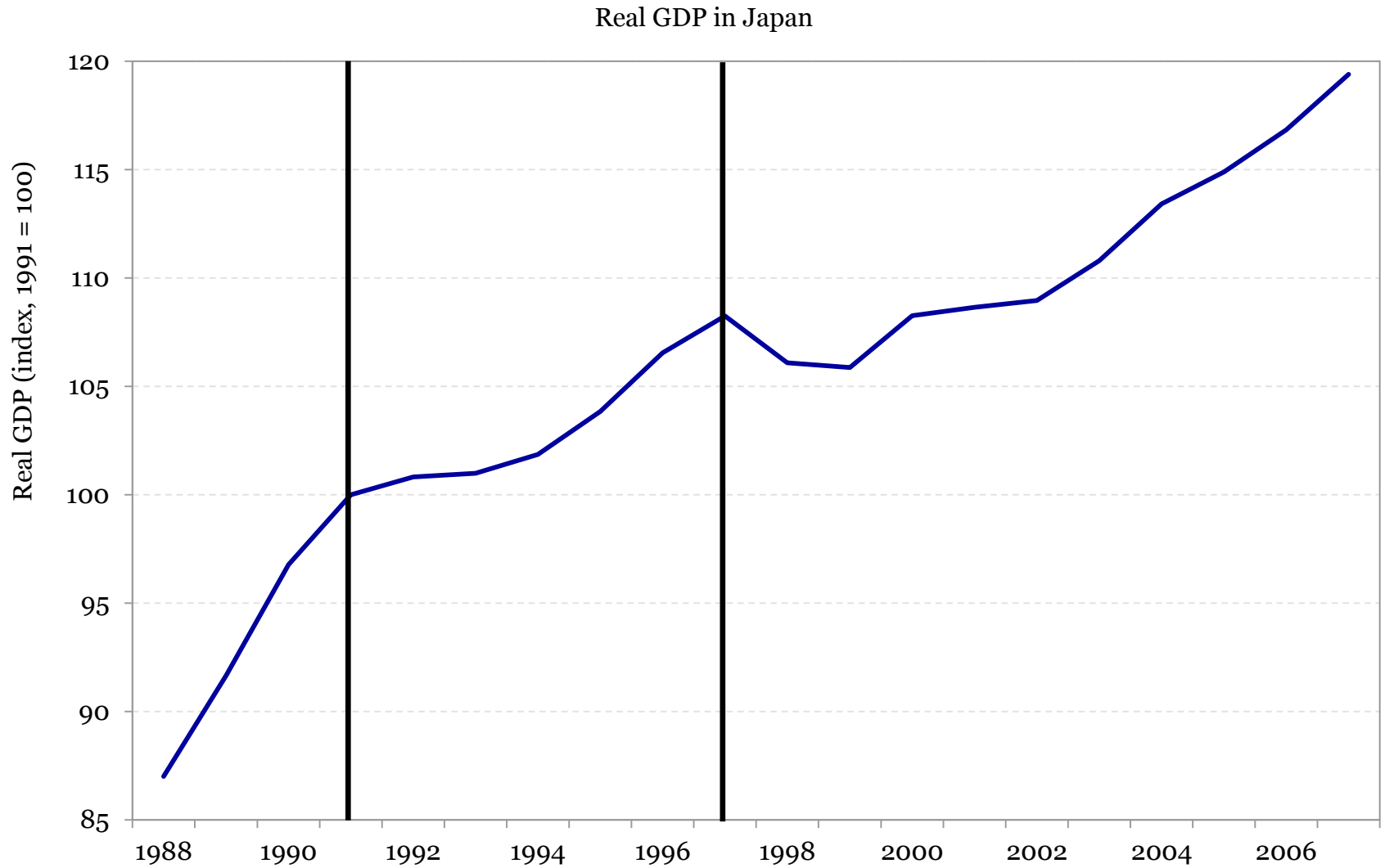


DAVID ROMER
UNIVERSITY OF CALIFORNIA, BERKELEY

Real GDP in Three Potential Lost Decades



Sleight of Hand #1: From 1991 to 1997



Sleight of Hand #2: From Slower Growth to the Supply Side

Three reasons to think that supply-side problems were only part of the story of Japan's lost decade:

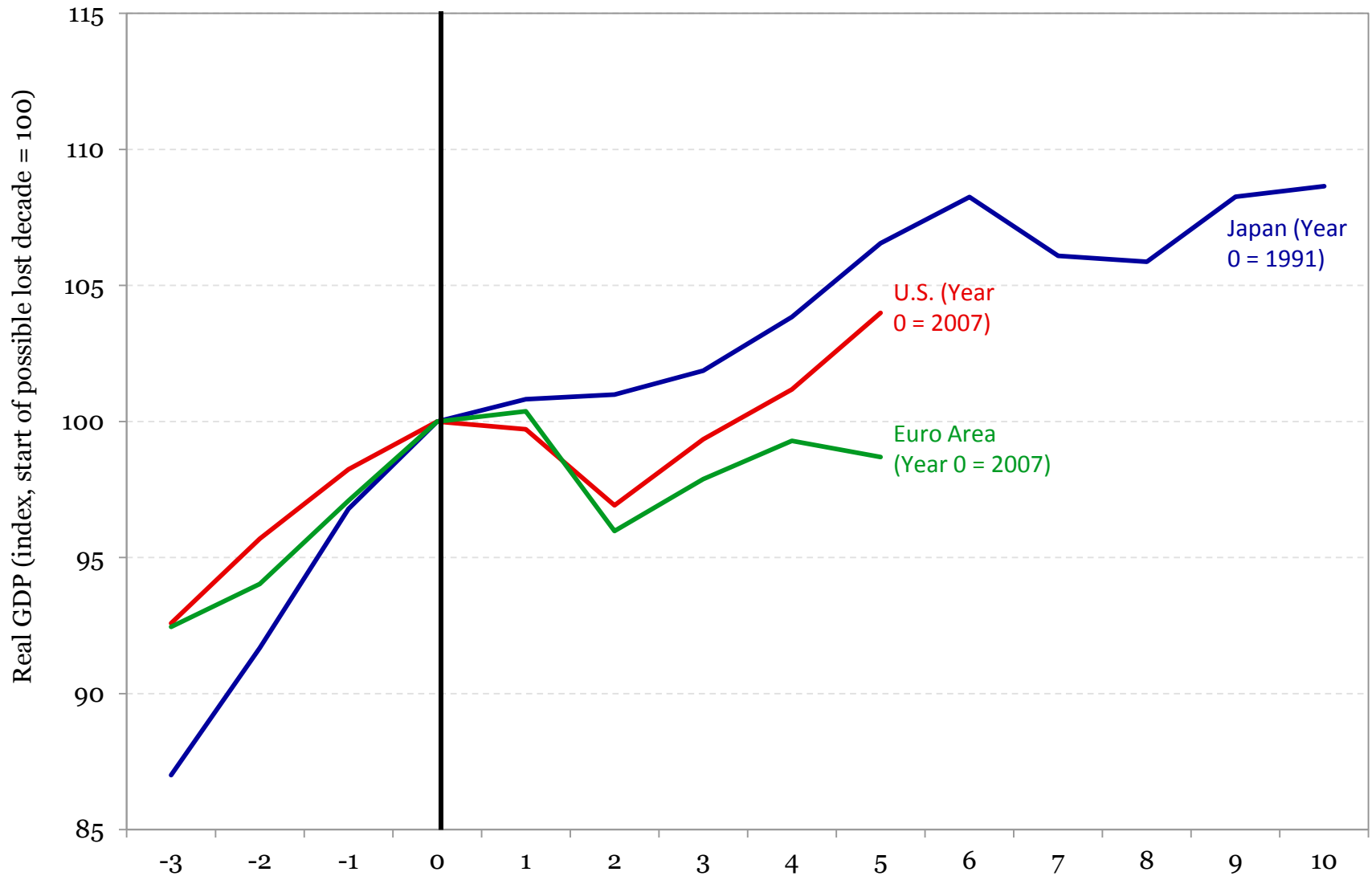
- There was no sharp break on the supply side around 1991.
- There was a sharp break on the demand side around 1991.
- There were direct symptoms of weak aggregate demand.

Sleight of Hand #3: From Japan to Europe and the United States

Two concerns about treating Japan as the way to understand recent events:

- The case that a financial crisis was central is much stronger for Europe and the United States than it is for Japan.
- The evidence of an aggregate demand shortfall is even stronger for Europe and the United States than it is for Japan.

Real GDP in Three Potential Lost Decades



Sleight of Hand #4: From Acknowledging that Their Story Is Incomplete to Discussing Policy Uncertainty

Why single out policy uncertainty rather than other forces that are clearly holding back demand?

More importantly:

- Baker, Bloom and Davis do not find even a clear correlation between their policy uncertainty index and subsequent economic activity.

- There are compelling reasons to think that Baker, Bloom, and Davis's index is correlated with nonpolicy factors adversely affecting the economy, and thus that what correlation there is overstates the effect of policy uncertainty:
 - ***One cause of uncertainty about policy is big nonpolicy shocks.***
 - Disagreement about inflation over the coming year is unlikely to be driven mainly by uncertainty about monetary policy.
 - In recent years, some policymakers have deliberately emphasized the issue of uncertainty about policy, artificially raising the index.
 - ...

Conclusion

- Please do not give all your attention to the issues that Hoshi and Kashyap focus on – keep some of it on more conventional theories stressing the importance of weak aggregate demand.
- But: What they have to say about the issues they focus on is insightful and valuable.