

# FINAL FANTASY: THE THIRD TCER/CIRJE MACRO CONFERENCE, OSAKA, SEPTEMBER 2001

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The Third CIRJE-TCER Macro-Conference, a one-day conference organized by Fumio Hayashi (Tokyo U.), Charles Yuji Horioka (Osaka U.) and Kenn Ariga (Kyoto U.), was held at OSIPP's Senri Extension on the 9th floor of the Life Science Center in Senri Chuo, Osaka on 29 September, 2001. The First and Second Conferences, both organized by Fumio Hayashi and Charles Yuji Horioka, were held in Tokyo in 1999 and 2000, respectively.

The Center for International Research on the Japanese Economy (CIRJE), one of the conference's sponsors, is a part of the Graduate School of Economics of the University of Tokyo. It was established in April 1998 to pursue international joint research on the Japanese economy; and collect and disseminate data and historical material on economic activities in Japan. Details of the Center's many activities can be obtained from its extensive English home page (<http://www.e.u-tokyo.ac.jp/cirje/index.htm>). Although we were told a little about the CIRJE at the conference dinner, I left the conference knowing absolutely nothing about the other sponsor, TCER. A quick internet search revealed that the TCER (Tokyo Center for Economic Research) was established as a foundation in 1959 to support theoretical and empirical research on the Japanese economy. Unfortunately, it only has a Japanese language home page (<http://www.e.u-tokyo.ac.jp/org/tcer/>). TCER's three principal activities are: supporting research undertaken by researchers associated with the TCER; holding conferences like the annual TCER conference; and providing financial support for the *Journal of the Japanese and International Economies* (JJIE), a specialist English journal devoted to research on the Japanese economy.

The twenty-six conference participants included three non-native speakers of Japanese. Following the rule of when in Rome do as the Romans do, the conference was conducted in Japanese. There was some discussion around lunch about whether a switch should be made to English. The judgement was made that the non-native speakers were doing just fine. However, the impressive aspect of the Japanese attending the conference was that a switch could have been made to English with little effect on the high quality of the discussion.

One of the organizers expressed some disappointment with the attendance numbers (compared to previous conferences). The 'decline' was attributed to a time-tabling conflict with other academic conferences, the Japan Society of Monetary Economics (Kinyu Gakkai) and the Lake Biwa conferences. This suggests an eleventh commandment for conference organizers, namely, check for other conferences being held at the same time as your own (see McAleer (1997)). A skeptic might say this was Horioka's test to discover the 'true believers'. In Japanese, this is called a *fumie* (literally stomping on a picture, but actually a test of true faith originally coming from a picture of Christ that Christians in Japan were asked to step on. The Catch 22 nature of this choice being if they stepped on the picture they would save themselves, but deny their Christian faith; a refusal to step on the picture usually led to the death penalty). Fortunately, the conference organizers did not follow the historical precedents that far! Personally, I felt the numbers were close to the optimal size for this sort of event as every one had the chance to participate.

### Academic program

Five papers were presented (one fewer than at previous conferences), and each paper was allocated 75 minutes, with 20–25 minutes for presentation, 20–25 minutes for the allocated discussant, and the remaining time for general discussion. This time allocation seemed to be work very well. In line with the internet age, all communication prior to the conference was conducted by email, and all papers were distributed in the same way on 6 September, over three weeks before the conference. As a result, there were no excuses for not having read the papers beforehand (although some participants obviously had not availed themselves of this chance).

Masaya and Yukie Sakuragawa's (Nagoya City U.) paper entitled 'An Analysis of the Mutual Interaction of Price Increases and Economic Growth' (in Japanese) set themselves the extremely challenging task of building a theoretical macro-model to explain the relationship between land prices and GDP, and using it to explain the actual movement of land prices in Japan over the period 1959 to 1998. Not surprisingly, the theoretical model leads to a set of Euler equations for the GDP growth rate and the rate of growth of land prices. As the authors readily admitted, it was rather surprising that their model seemed to work best for the post-1986 period that includes data for both the asset bubble and its collapse.

Kaoru Hosono's (Nagoya City U.) 'The Response of Bank Balance Sheets to Monetary Policy — Verifying the Bank Lending Route Using Micro Data' (in Japanese) applies Kashyap and Stein's (2000) techniques to Japan to investigate the existence of the lending channel for monetary policy. Hosono uses panel data on individual Japanese banks from 1976 to 1999 (giving a sample size of 3674). He finds among other things that the smaller the bank or the lower the level of its liquid assets, the larger is the response of that bank's lending to changes in monetary policy (as proxied by the call rate).

Takeshi Kimura and Takushi Kurozumi (Bank of Japan) in their paper 'On the Effectiveness of a History-Dependent Monetary Policy' (in Japanese) attempt a theoretical and quantitative evaluation of a history-dependent monetary policy using a structural model estimated over the period 1975 to 1997. They find among other things that a monetary policy emphasizing the targeting of the price level and economic growth targets leads to a better macroeconomic performance than a discretionary inflation targeting policy; and a discretionary history-dependent monetary policy is just about as effective as a commitment to inflation targeting.

Hiroshi Fujiki (Bank of Japan) in his paper with Cheng Hsiao and Yan Shen entitled 'Is There a Stable Money Demand Function under the Low Interest Rate Policy? A Panel Data Analysis' (the only paper in English) uses annual data at the prefectural level (47 prefectures) from 1992 to 1997 to estimate a dynamic money demand function for Japan. For a country that supposedly does not have good panel data sets, the amazing thing about Japan is that reasonably good data are available for GDP and various definitions of money at the prefectural level (see also McKenzie, 1997, p. 439, for some other examples). Fujiki and his colleagues are able to use this data set to illustrate the practical value of some recent dynamic panel estimators, and obtain reasonably accurate estimates of the income and interest elasticities of the demand for money.

The final paper was by Kenjiro Hirata (Osaka U.) entitled 'Intergenerational Life-Time Income Differentials and Aggregation Errors of the Euler Equations' (in Japanese). Hirata uses an overlapping-generations model, where there are differentials in life-time income across generations (or cohorts), as a basis for estimating the aggregation error in estimates of the marginal rate of intertemporal substitution when only data on the aggregate level of consumption are used. Aggregation errors have an impact on the rate of time preference and can give spurious negative values of the rate of time preference. Hirata suggests that these findings may help solve the so-called 'equity puzzle'.

The five designated discussants were Etsuro Shioji (Yokohama National U.), Yuri Sasaki (Meiji Gakuin U.), Makoto Saito (Hitotsubashi U.), Colin McKenzie (Osaka U.) and Mototsugu Shintani (Keio U.), respectively. I cannot evaluate my own discussion, but all the other discussants provided excellent constructive comments that will ensure all the papers appear in the literature in an even better form.

## **Social program**

An excellent lunch and dinner were provided at restaurants on the first floor and 20th floor of the Life Science Center, respectively, so no one got lost in moving between facilities. Bottled water and coffee/tea were provided as refreshments in the morning and afternoon, respectively. Anyone familiar with Charles Horioka's research will know about his penchant for detail, and this was also reflected in his immaculate organization of both the social and academic programs of the conference. Excellent logistical support for this conference was provided by Midori Wakabayashi and Ken Yamada.

Those of you who have attended dinner receptions during Econometric Society meetings in Japan will know that food disappears all too quickly (see, for example, McAleer and McKenzie (1996)). Here we had a Japanese stand-up dinner where the reverse happened! Talk about variety — there were fifteen different main courses! There was far too much food. In fact, there was so much food leftover it was embarrassing (and they say there is no such thing as a free lunch (or dinner))! It was interesting to note that all the dessert, Horioka's favorite part of any meal, disappeared.

At the organized lunch and dinner, serious economic questions like how successful Prime Minister Koizumi's 'structural reform' program was likely to be and what caused the current Japanese recession were discussed. Fumio Hayashi expounded on his original answer to the latter issue that focused on the impact of shortening working hours from 48 hours to 40 hours over the period 1988 to 1992. Hayashi claimed this caused a significant increase in labour costs and a fall in the GDP growth rate by a little under 1% in every year between 1991 and 2000 (for details see Hayashi and Prescott, 2001). Since the overtime premium is relatively small in Japan, this explanation did not meet with immediate approval. Hayashi asked 'Why are all the Australians I meet so skeptical of my idea?' What could I say? Hayashi was also very pleased to report that his new textbook (Hayashi, 2000) was now among the top three best sellers for graduate econometric textbooks.

Regional variation in Japan also generated a deal of debate. How do we explain regional variation in savings rates across Japan? Aichi prefecture (which includes Nagoya) has a very high per capita income level, but a relatively low savings rate. How do we explain why bank lending rates and deposit rates are lower in Nagoya than in the rest of the country? Is a sufficient economic explanation to say that people in Nagoya are misers? According to academics who actually live in Nagoya, Nagoya is not a fun place at night because it is a society based on car-usage. With drink-driving laws being so strict in Japan and Nagayans being misers, there is little demand for the drink and night club establishments that exist in great numbers in Tokyo, Osaka and Fukuoka. We also learnt that wasteful spending on public works is not limited to just the construction industry, but also extends to IT investment as well. The performances of Makiko Tanaka, daughter of former Prime Minister Kakuei Tanaka, as Foreign Minister [extremely disappointing] and Heizo Takenaka, a former economics professor at Keio University, as Minister for Economic and Fiscal Policy [not much achieved to date] were not surprisingly also conversation topics. Despite some incredulity expressed by others, Professor Ohtake (Osaka U.), a labour economist, claimed that Japanese labour laws only recognized sexual harassment by men against women!

At these conferences, it is natural to discuss who is moving where (Yasushi Iwamoto from Kyoto U. to Hitotsubashi U., Kimio Morimune from the Economic Research Institute to the Department of Economics within Kyoto U., and Naosumi Atoda from Osaka U. to Keio U.); who wants to move (for obvious reasons not repeatable); who is happy after moving (Makoto Saito who moved from Osaka U. to Hitotsubashi U.); and the special position of the University of Tokyo in the national university system. Academics, particularly those in public

universities who cannot negotiate about salary, are always eager to investigate the possibilities for non-wage competition by swapping information about teaching loads, research funds, administrative loads, and attendance (or lack of it) at faculty meetings. Economists being great believers in arbitrage, also attempt to arbitrage around 'local accounting rules' by collecting information on faculties/universities with less restrictive interpretations than their own institutions, in spite of the existence of common global accounting regulations for national universities. The reality is that there is still significant variation across national universities (and even within the same university) in the interpretation and application of identical accounting rules.

The really serious part of the conference began at the after-dinner 'party' held at a restaurant at Shin-Osaka station (this was not listed on the official conference program). There were complaints about how docile Japanese graduate economics students seem to be compared to the late 1980s and early 1990s. The classic puzzle of the night was: What do Japanese professors with the initials Y.I., H.T. and M.F. have in common? Answers should be sent to Michael McAleer at the University of Western Australia. We hope that Professors Sakuragawa and Sakuragawa, a husband and wife team, managed to catch the final bullet train back to Nagoya, even though they left the restaurant with five minutes to spare and began well by heading in the wrong direction!

### Classic quotes

'This is my view, not the Bank of Japan's' (a Bank of Japan official trying to avoid responsibility for *anything* he might say including this classic quote!).

'The discussant's presentation was much better than mine' (one of the five paper presenters).

'Why don't you call in some of the graduate students in economics at Osaka University to deal with the food?' (Fumio Hayashi to Colin McKenzie during the stand-up dinner). A graduate student actually had the courage to ask one of the restaurant staff whether we could take the left-over food away. The response was a disappointing 'No. For reasons of hygiene!'

'I do not believe regression results that do not contain any information upon which to judge the correctness of the model's specification' (Colin McKenzie)

'You won't be able to read this slide so I have blown it up' (Colin McKenzie, who is not a terrorist despite what he says).

'Economists love puzzles' (Mototsugu Shintani). It is worth pointing out that Mike Wickens, the current editor of the *Economic Journal*, has provided a reason for this love of puzzles, namely, 'economists now use the word puzzle in their papers so that they can publish results that in the past could not be published because theory and evidence were at odds. When efficient market theory is not supported by the evidence you call it 'a puzzle' when in fact either the data or the theory are just plain wrong!'

'I have some time left over so let me make an advertisement for my paper (Sasaki, 2001)' (an unnamed discussant).

A quick lesson in reality: 'I took this paper (determining optimal monetary policy) to my supervisor. His response was 'Do you really think we follow first order conditions like this?', (Tabeshi Kiawa, Bank of Japan).  
 'Theorists will not permit this' (Mototsugu Shintani).  
 'There seems to be a missing equation' (Etsuro Shioji).

### Penetrating questions

'Penetrating questions' is a new addition to conference reviews. It is designed to provide ideas for discussants and others who need a question (or two), but don't know what to ask.

'Are there really any micro-foundations for the Phillips Curve?'

'What would be the macro problem in this model?' (Makoto Saito)

'What is your definition of liquid assets?'

'Is the call rate [a very short-term money market interest rate] really a good indicator of the stance of monetary policy in Japan?' (Makoto Saito)

'Can the GDP gap really be controlled by the Bank of Japan?' (Makoto Saito)

'Shouldn't they be in real terms?' (Etsuro Shioji)

'Why do you estimate this as a system?' (Colin McKenzie)

'Is this a social planning problem?' (Yoko Tamura)

'Why estimate it as a panel?' (Kenn Ariga)

'Is there an [equity] puzzle [in Japan]? If so, has it been solved?' (Fumio Hayashi)

The answers were it depends on the time you look at and no, respectively!

### Epilogue

If an independent conference rating organization existed, I am convinced this conference would have been awarded an AAA rating. For those interested, the Fourth CIRJE/TCER Macro-Conference will be held in Tokyo next year. Given how enjoyable the conference was this year, hopefully I will get an invitation to the next one. I guess that depends on how the organizers respond to this review and how much of a sense of humour they have. I will keep you informed. After the conference, I was a little more optimistic about the future of economic research in Japan, in spite of the nearly complete lack of incentives to undertake research.

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