

Consequences of Abenomics: Lessons from U.S. and Korea*

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*The views are those of the presenter and not necessarily those of presenter's affiliations

How Are U.S., Japan, and Korea Doing?

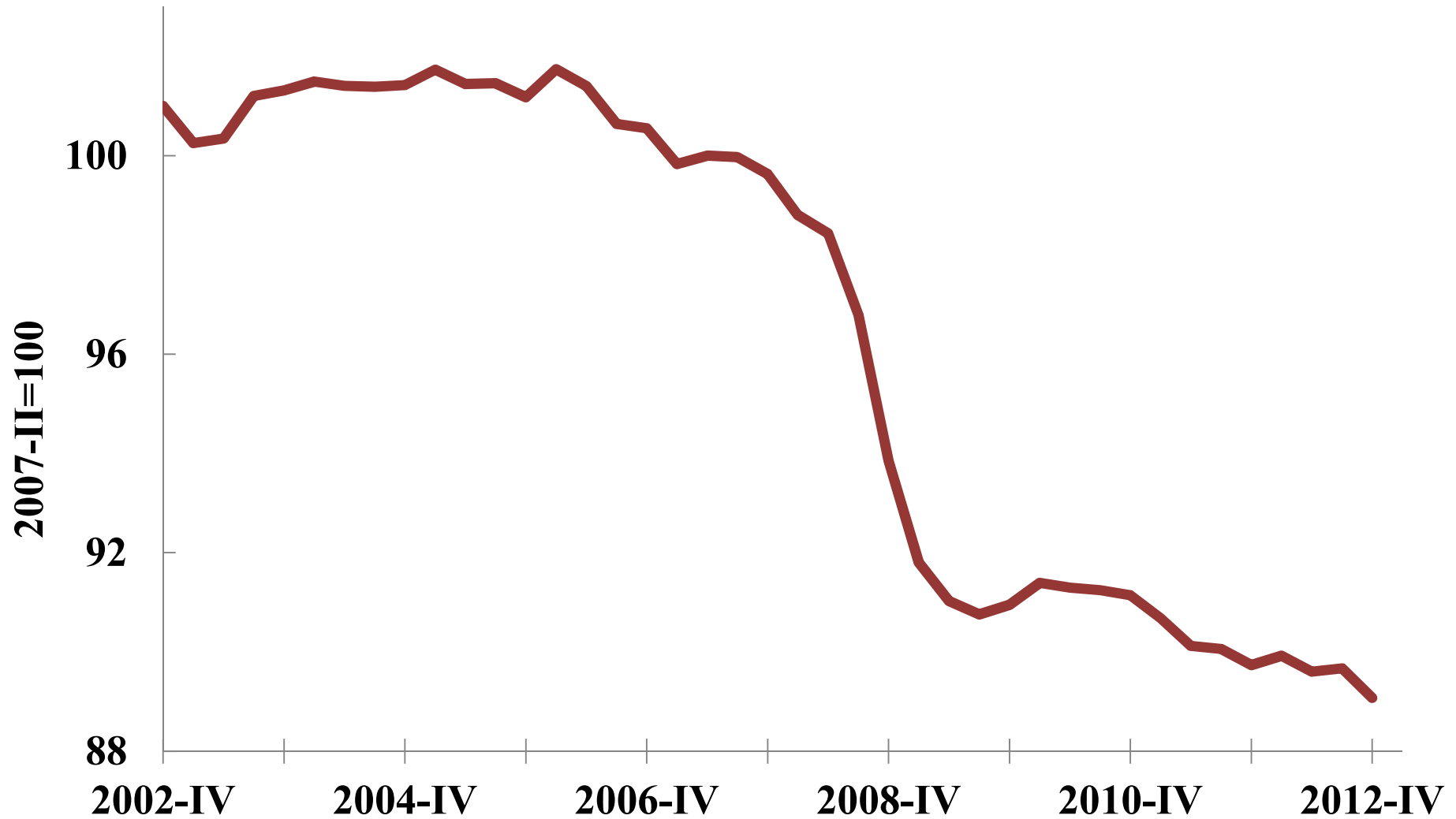
- Some preliminaries
 - Correct for population size
 - Correct for secular trend growth of 1.8% per year
- Prosperity and depression are relative concepts
- Depression is relative to pre-2008 trend unless otherwise stated

- Fast growth occurs ONLY during transition from a lower level growth path to a higher level growth path
- Differences across countries at a point in time are differences in levels
- Nearly all the differences in GDP per adult across countries are the result of GDP per hour and not hours per adult

U.S. Depressed 11% Relative to Pre-2008 Trend

- And has been for nearly 5 years

U.S. Detrended GDP per Adult



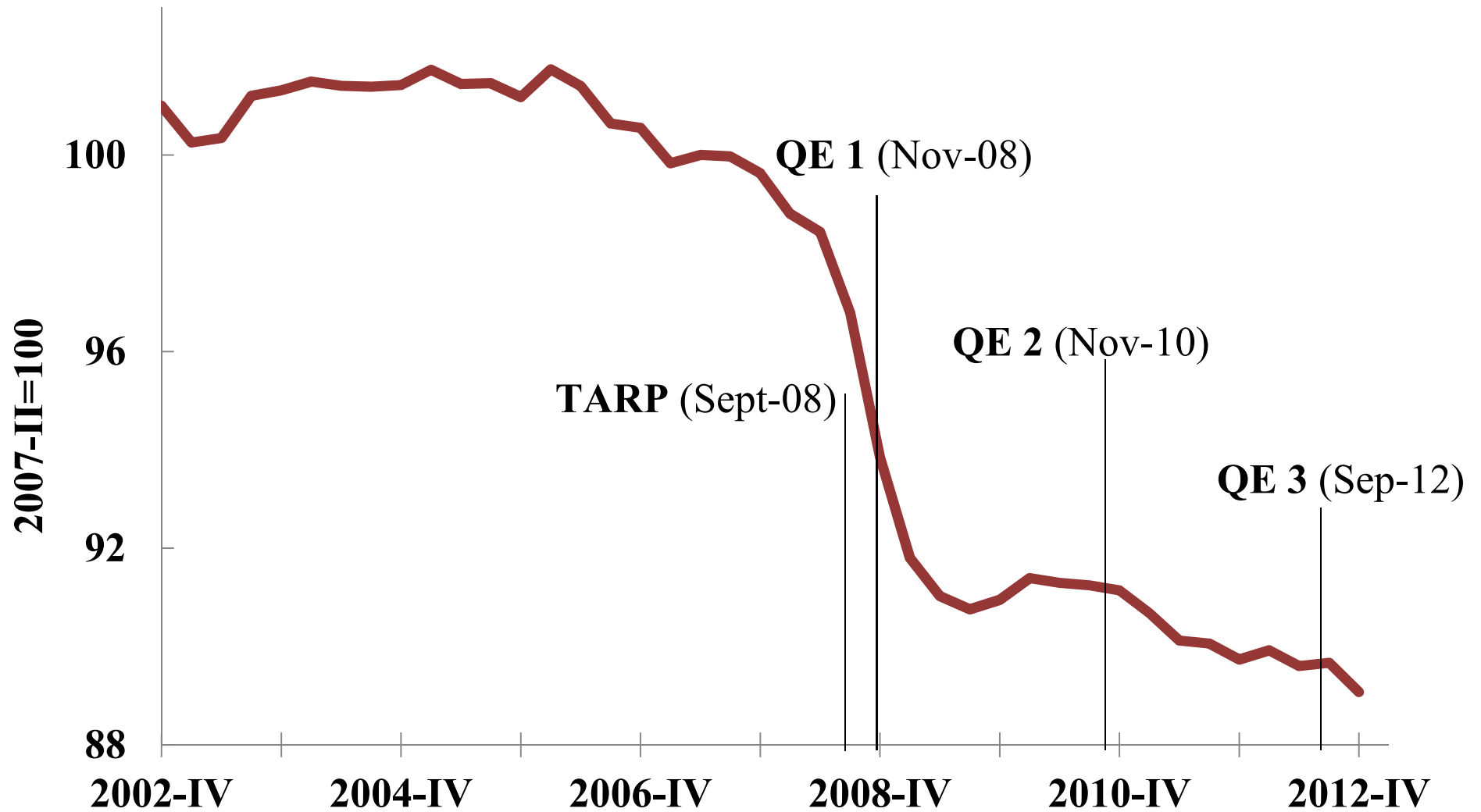
Did QE Help?

NO!

Did QE Help?

- QE is just off-balance-sheet government debt that lowers accounting government deficit
 - Not economic government deficit
- When assets are sold by Fed and deposits of member banks reduced, there will be a capital loss and increases in the accounting government debt

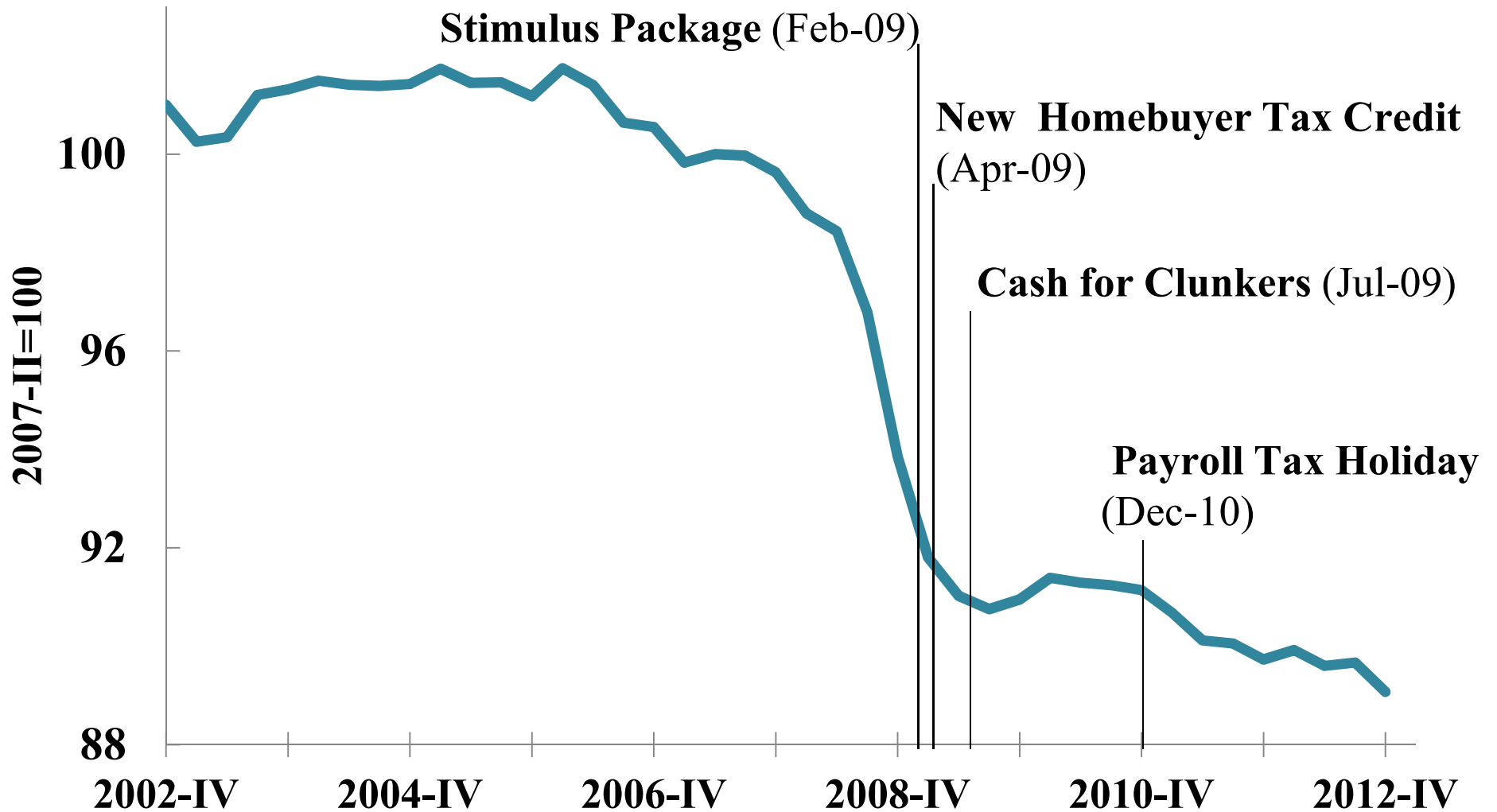
U.S. Detrended GDP per Adult



Did Increased Spending and Other Gimmicks Help?

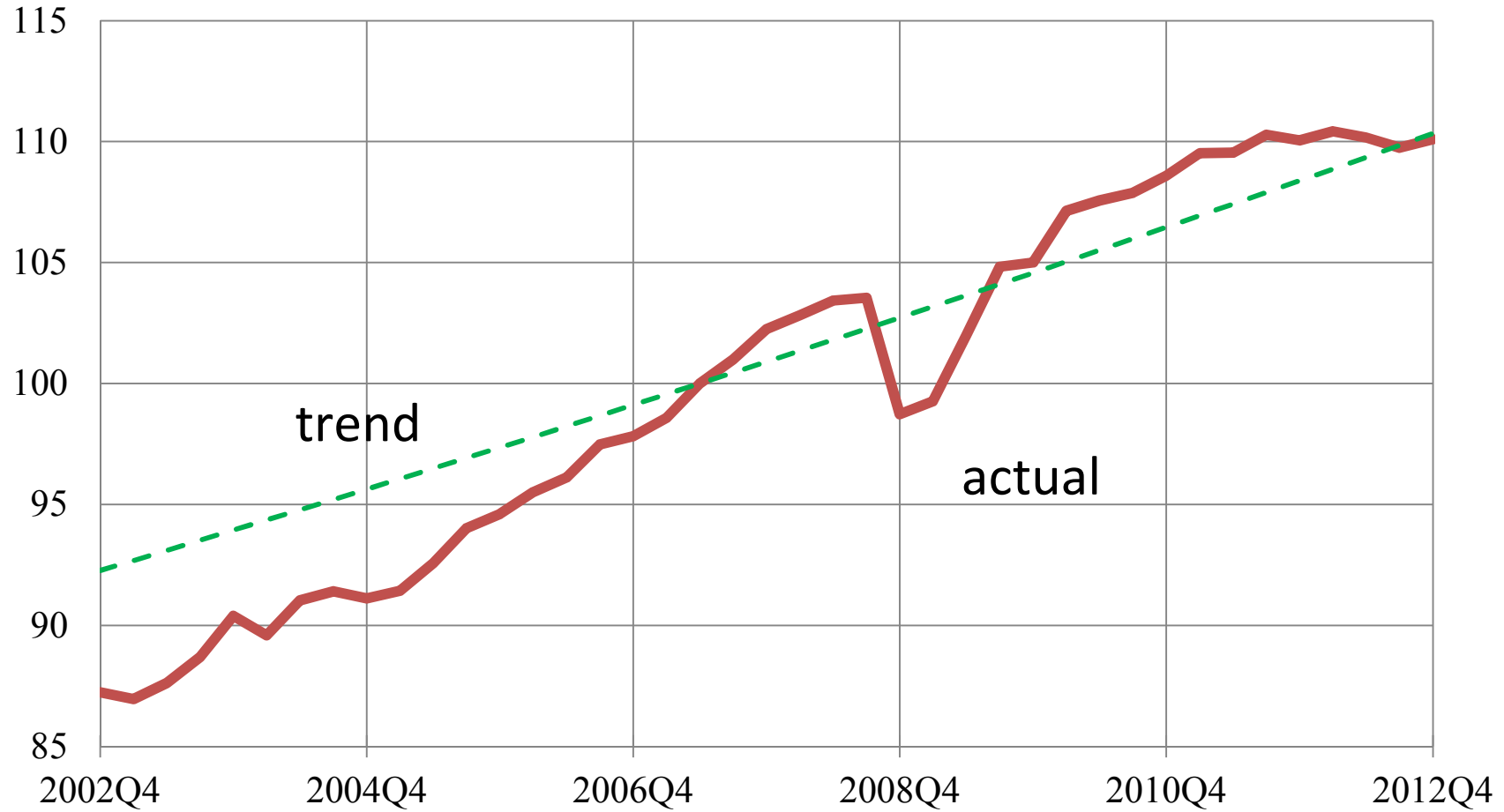
- NO

U.S. Detrended GDP per Adult



Korea Doing Reasonably Well

Korean GDP per Adult (2007Q2=100)

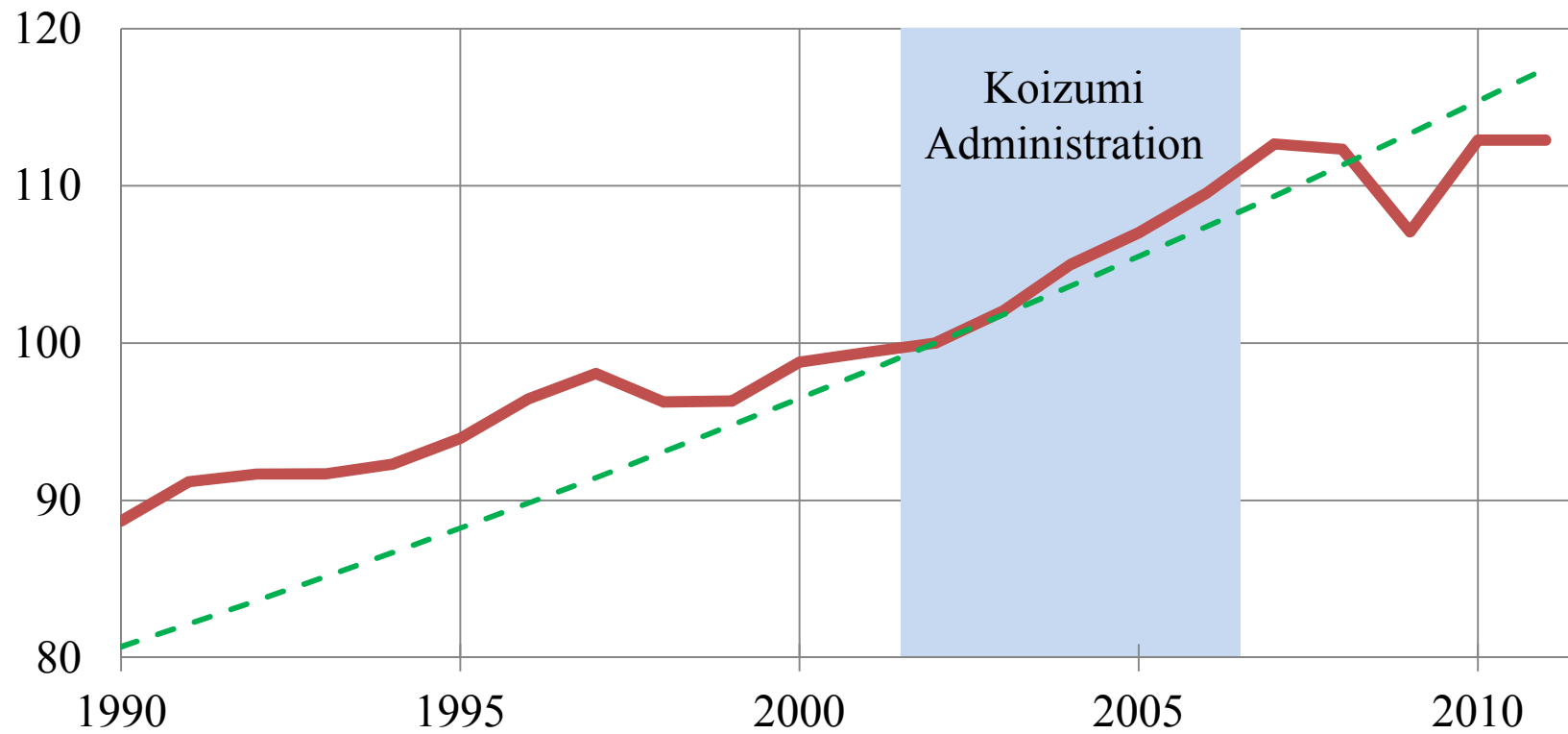


What About Japan?

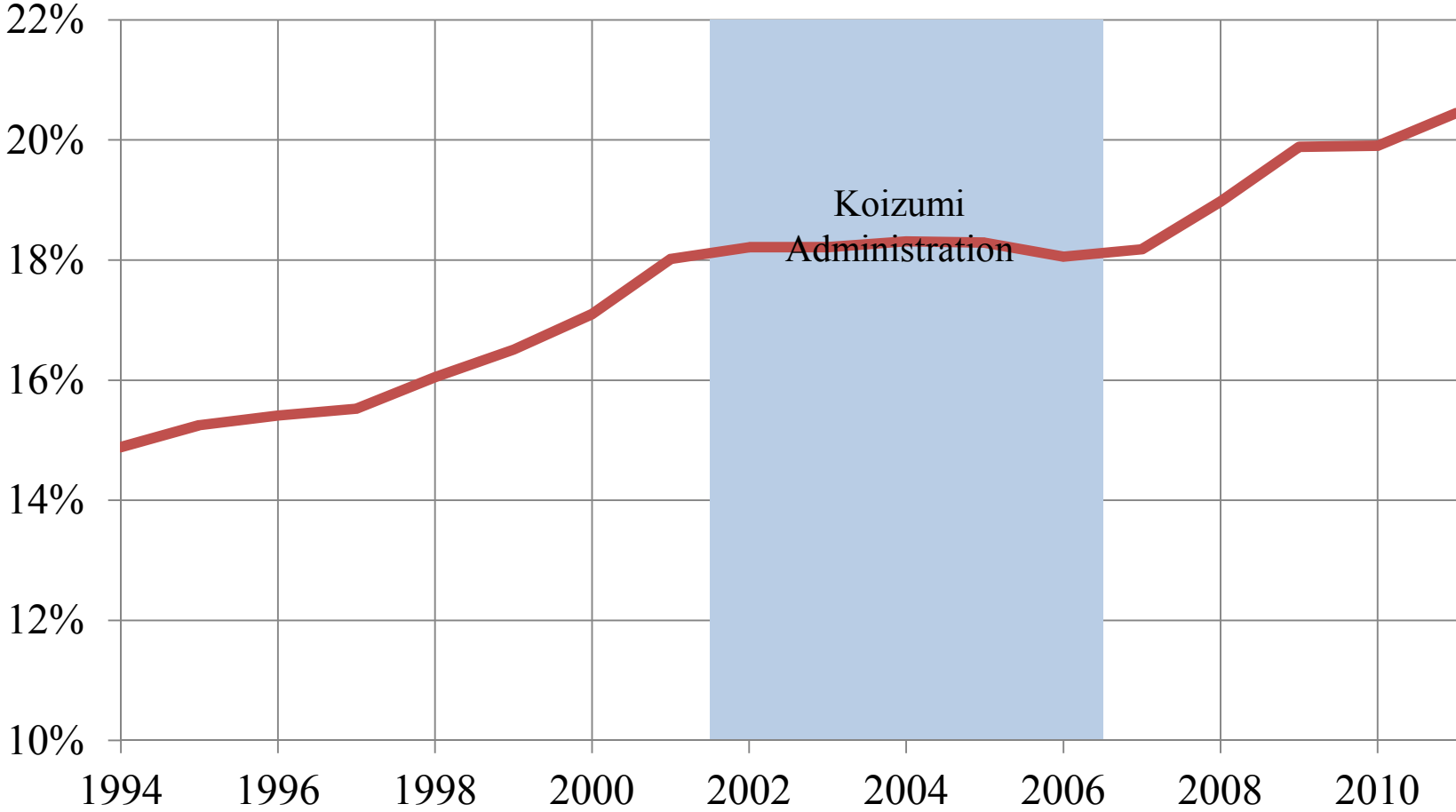
- 1992-2001 lost decade of growth
- 2002-2007 healthy growth
- 2008-2012 similar to U.S. but smaller recession (i.e., falling relative to trend)
 - And therefore less subsequent depression

Japan Was Doing Well During the Koizumi Administration

GDP per 15-64 Years Old (2002=100)



Government Purchase of Goods and Services as Percent of GDP



Note

- No growth in government purchases of goods and services as percent of GDP in the Koizumi period
- Growth was due to growth in productivity

Abenomics Will Be a Failure Unless Productivity Growth Revives

The Three Pillars of Abenomics

- Pillar 1: QE
 - Has little real consequences
 - Shifts some government debt off balance sheet
 - Current accounting deficits smaller – future deficits bigger
- Pillar 2: Increase spending
 - Certain to depress the Japanese economy more
- Pillar 3: Increase tax rates
 - Certain to depress the Japanese economy more

What Should Japan Do?

- Should open up and have more domestic and foreign competition
 - This leads to higher productivity
- Japan should get serious about tax reform and institute one that will shift the growth path up
 - Move to mandatory savings for retirement
 - Eliminate capital income taxes
 - There are big distortions when consumption in retirement is made more expensive in terms of current consumption

What Should Korea Do?

**Be Korean and pursue policies that increase
Korean productivity.**