

# **Fiscal and Monetary Policy Responses to COVID: Enough or too much? Or misdirected?**

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21ST CENTURY: AN AGENDA FOR JAPAN AND THE UNITED STATES

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# Summary

- COVID **infection and death**
  - Much less in Japan than US in terms of infection and death
  - The third and fifth surges in 2021 were relatively worse in Japan than the US – some impacts on politics
- **Vaccines**
  - Late start in Japan, but accelerated quickly and overtook the US in September
- **Monetary** responses were rather quick but not sustained
- **Fiscal** stimuluses were large (compared to other countries) in Japan and US
- But, **economic recovery is slower** in Japan than in US
- Japan subsidized firms to **hoard workers**, while US enhanced unemployment benefits
- Challenges. **Misdirected fiscal spending** (cash transfer);  
Adaptation to the new normal (**remote; DX**)

# COVID impacts on US and Japan

- COVID infection and death rates were much lower in Japan than the United States.
- BUT, the degree of relative advantage of Japan was severely eroded in the fifth wave (August 2021)
  - The new infection rate in Japan was 1/60 of the US in 2020, but became 1/10 in August 2021
  - The COVID cumulative death rate in Japan was 1/100 of the US in 2020, but became only 1/40 in August 2021.
  - This was probably due to the difference between the progress of vaccination in the US and Japan
- Japan started three month later than the US and the difference widened until June 2021. Then Japan accelerated vaccination and the (full) vaccination rate in Japan overtook the US in late September

# Fiscal Policy:

See figure in the next slide

- Advanced countries added more stimulus than EMs and Low-income countries
- In terms of **fiscal stimulus** (additional spending and forgone revenues),
- Among the G7: **US (25.5% of GDP)**, UK (19.3%), Japan (16.7%), Canada (15.9%), Germany (15.3%), Italy (10.9%), and France (9.6%)
- In addition, countries added more fiscal measures, in **equity purchases, loans, and guarantees**
- Among the G7: Italy (35.3%), **Japan (28.3%)**, Germany (27.8%), UK (16.7%), France (15.2%), Canada (4%), US (2.4%)

# Japanese recovery is very slow

- Slower recovery in Japan, despite
  - Low total infections and deaths compared to other G7
  - Massive fiscal and monetary measures
- Why?
  - Fiscal expenditures were mis-directed
    - Demand declines were not because income became lower but behavioral change in consumption. Cash transfer to all residents, for example, did not stimulate consumption, but savings went up.
    - Spending on medical resources (with reforms) were not enough, and the third and fifth surges were quite damaging.

# Appropriate policies going forward – embrace new normal

- How to continue (and accelerate) economic recovery without resurgence of COVID infections
  - Vaccination—fully vaccinate plus apply booster
    - Japan now leads the way; US states are diverging – NY is one of the highly vaccinated states
  - Basic precautions—masks and
  - Re-start the hardest hit segments of the economy
- Adapt to a new normal to increase productivity
  - Remote work, remote teaching, remote conferencing, remote medical services, online shopping, cashless payments, etc.

# Inappropriate policies going forward – fighting the last war

- Cash payments for all (or under 18 yrs. old) financed by government bond issues
  - These are shifting income from future to now. The current young has to pay when they are old enough to pay for taxes
  - An impact on the aggregate demand is limited (as was before). The problem is not income but environment for consumption activities
- Subsidies to declining industries (if you believe the new normal is different from the old)

Thank you

