

【Grant-in-Aid for Scientific Research (S)】

Broad Section A



Title of Project : Economic stagnation and widening wealth inequality: Crises of the world economy and a construction of a unified macroeconomic theory

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Keyword : wealth preference, secular economic stagnation, widening wealth inequality

【Purpose and Background of the Research】

Since the financial crisis of 2008, many developed countries have been plagued by secular economic stagnation, asset price bubbles, and widening wealth inequality. Conventional theories take various market distortions, arising from factors such as sluggish price-wage adjustments, market concentration and credit market imperfections, as their root cause. It is unlikely, however, that all these distortions emerged suddenly in 2008. In fact, following the conventional wisdom, many countries took measures to improve productive efficiency or expanded money supply so as to minimize distortions, but only to see little success to date: consumption and income continue to be sluggish, with inflated asset prices and widening economic disparities.

In this project, we aim to build a unified framework to analyze these issues by focusing on people's desire for wealth holding, rather than economic distortions. We also investigate characteristics of wealth preferences through questionnaire surveys and experiments, and work on micro-foundations of potential policy measures.

【Research Methods】

This project consists of three subprojects.

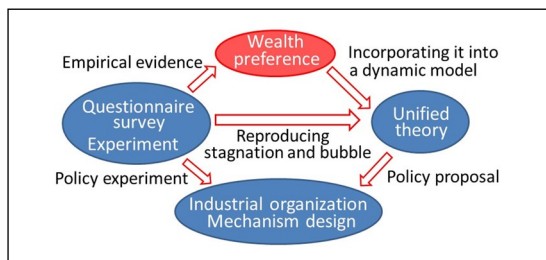


Figure 1 Project structure

Subproject (1) constructs a macroeconomic theory to account for transition to a low-growth stage, long-term economic stagnation and asset price bubbles, and widening wealth inequality in a cohesive framework. To this end, focus is placed on the relative strength of people's desire for wealth holding with respect to that of consumption. The effects of macroeconomic policies are scrutinized within this framework.

Subproject (2) examines quantitative characteristics of wealth preferences through large-scale questionnaire surveys and economic experiments. In the surveys,

hypothetical questions are asked to identify how one's income and wealth impact consumption.

Subproject (3) explores micro-foundations of institutions, rules and regulations that can spur product innovation, so as to stimulate aggregate demand and better utilize idle resources.

【Expected Research Achievements and Scientific Significance】

Economic stagnation, malfunctioning of financial markets, and widening wealth inequality have so far been analyzed separately, under the presumption that they are rooted in various economic distortions and imperfections. This research project takes a novel stance in that it relies on a single factor—relative preferences for wealth and consumption—to account for these issues in a unified manner. We expect that our theoretical framework will shed new light on the underlying mechanisms of long-

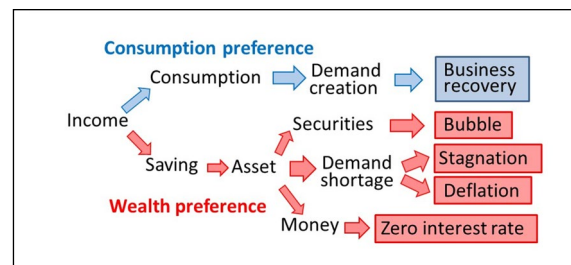


Figure 2 Consumption and wealth preferences

term stagnation and enable us to provide new policy insights to cope with pathological social problems often faced by advanced economies.

【Publications Relevant to the Project】

- Illing, G., Y. Ono and M. Schlegl, “Credit Booms, Debt Overhang and Secular Stagnation”, *European Economic Review*, 108, 78-104, 2018.
- Ono, Y., *Money, Interest, and Stagnation- Dynamic Theory and Keynes's Economics* -, Oxford University Press, 1994.

【Term of Project】 FY2020- 2024

【Budget Allocation】 135,600 Thousand Yen

【Homepage Address and Other Contact Information】

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