SUMMARY

Japan has suffered from deflation for fifteen years. Many economists regard deflation as a threat to the macroeconomy. Some even argue that the major cause of long stagnation of the Japanese economy is deflation, and that it is, in turn, caused by insufficient supply of money for which the Bank of Japan is responsible. They argue that even if the interest rate is zero, quantitative easing if it is done boldly enough, can overcome deflation by way of generating inflationary expectations.

I take issue with this standard view. Inflationary expectations cannot be simply generated by quantitative easing. I explain that the problem actually pertains to modern micro-determination which had fundamentally changed during the 1990's. I also stress the importance of innovations.

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