

Report on the Bank of Korea International Conference 2017*

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The South Korea's central bank held its annual international conference on 1–2 June 2017 for the 13th time, with this meeting focusing the subject of *Global Economic and Financial Challenges: The Decade Ahead*. The professional event aims at discussing current topics related to economic stability, growth and monetary policy with the participation of distinguished economic experts, academics and policymakers, while at the same time providing a high-level platform for discussing new economic theories and initiatives as well.

The objective of this year's conference was to identify structural changes in the world economy, and to examine the challenges of the future and the possible economic policy responses to these challenges. Thus, the reforms necessary for ensuring inclusive and sustainable growth were also discussed.

In the opening address to the conference, *Lee Juyeol*, Governor of the Bank of Korea, called attention to the fact that the world economy stands at a turning point, but despite the unprecedented accommodative fiscal and monetary policies, economic growth remains fragile. Many challenges can be identified in the world, and some of these are of structural nature, such as the ageing population, income inequalities or financial imbalances. Increasing the intensity of structural reforms is necessary, but it must also be taken into account that an appropriate (macroeconomic) environment is a fundamental condition for successful execution. Thus, the conference can make a significant contribution to generating constructive policy approaches.

Thomas J. Sargent, Nobel prize laureate economist (2011) and professor at New York University was one of the keynote speakers of the conference. In his speech, Sargent discussed the different assessment of labour supply elasticity in the micro and macro approaches. The value of elasticity is a key issue from the point of view of economic models, but different values are derived stemming from the characteristics of the two approaches.¹ A better understanding of this group of

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¹ Remark: in the micro approach the labour supply elasticity is typically low, whereas the macro related estimates show a (sometimes substantially) higher value.

issues is crucially important, because it can help in comprehending the challenges and finding answers.

The second keynote speech at the conference was given by *John C. Williams*, President and Chief Executive Officer of the Federal Reserve Bank of San Francisco. Among other things, it was noted that the neutral rate of interest, according to the different estimates, have declined over the past several decades. Other topics included the slowdown in productivity growth since the crisis and anticipated demographic trends. As a general economic policy outlook, unconventional policies may become a new norm, while at the same time a revaluation of the policy framework is necessary in order to manage the challenges caused by the new environment, to ensure price stability, to anchor inflation expectations, and to ensure the achievement of macroeconomic objectives.

After the keynote speeches of the conference² there were several sessions in which well-known central bankers, professors and renowned economists of international organisations presented the results of their studies, with the moderation of experts, after which these results were discussed and appraised by discussants.

(1) *Population ageing*. The ageing population represents a challenge in both the developed and the emerging countries as well, and this has an effect on both the supply and demand sides as well. *Sagiri Kitao*, professor at Keio University, mentioned in her presentation, *inter alia*, that delaying the necessary reform of the social security systems results in a significant cost for the young generations, while the uncertainty related to the structure and timing of the reforms affects individual generations differently. *Eric French*, professor at the University College London, talked about how the US health care reform package, the so-called “Affordable Care Act”, affects labour supply and savings. In terms of the subject of labour supply elasticity, the relevance of the labour supply decision along extensive and intensive margin was also mentioned.

(2) *Inclusive growth and employment*. As a result of the changes in economic structures and technological development, uncertainties have arisen regarding the future of the labour market, and handling these uncertainties is of key importance in terms of inclusive growth. *Steven J. Davis*, professor at the University of Chicago, mentioned that the young firm employment share has fallen significantly in recent decades in the United States and also talked about the connection of price changes in the local housing markets and the trends in the discussed rate. *Nir Jaimovich*, professor at the University of Southern California, said in his lecture that after the

² The presenters of the conference typically expressed their own views in the individual subjects and did not represent the views of the sending institutions. At the conference, the audience was able to learn about the standpoints of more than 30 presenters about the processes selected as the subject of the conference, and thus, the next part of this report essentially focuses on presenting the main messages of the presentations of the studies.

crisis the quality of the goods consumed has become lower, and the less labour intensive and lower quality goods have affected employment to a significantly negative degree.

(3) *Structural reforms and macroeconomic policies.* Monetary and fiscal policies can advance structural reforms, while successful structural reforms can expand the macroeconomic manoeuvring room. Recognition of these approaches and maximizing synergies are essential for addressing the challenges. In this session, *Mikhail Golosov*, professor at Princeton University, gave a presentation on the optimal fiscal and monetary policy with redistribution. Subsequently, *Davide Furceri*, senior economist at the IMF, talked about how fiscal policy can contribute to increasing growth in the medium term. It was emphasised that fiscal stabilisation can positively influence the R&D and the information and communication technology (ICT) sector, especially during times of recession.

(4) *Sustainable growth.* Sustainable growth includes important elements such as efficiency and productivity, but in the recent period the examination of the distribution effect of growth has also become more and more important. *Yongsung Chang*, professor at the University of Rochester and at Yonsei University, presented the evaluation of the redistribution policies of the OECD countries, mentioning how important the support of the optimal tax reform by the population is in terms of the implementation of the reform. After this, *Rémy Lecat* presented the trends in total factor productivity (TFP) in a long-term, historical and cross-country perspective, including the recent decrease in the indicator. Regarding the expected changes in productivity, the assessment of the so-called secular stagnation and technological shocks can be critical.

(5) *Panel discussion on policy challenges.* The panel discussion was aimed at the further evaluation of the subjects discussed in the previous sessions and the consequences of those, with the participation of the following guests: *Jan Marc Berk*, director at De Nederlandsche Bank; *Era Dabla-Norris*, division chief at the IMF; *Eric French*, professor at the University College London; *Soyoung Kim*, professor at Seoul National University; and *Andrea Tambalotti*, assistant vice president and function head at the Federal Reserve Bank of New York. Amongst other things, it was noted that in terms of the efficient implementation of monetary policy, significant attention must be paid to undesirable redistribution mechanisms and the prevention of those as well. Moreover, on the side of monetary policy it was highlighted that, as a result of the decline in the neutral rate of interest, the flexibility of the inflation targeting framework has become more important. In terms of narrowing the productivity gap across firms, structural reforms have arisen that partly affect the labour and product markets (e.g. with respect to reducing barriers to entry). Furthermore, it was highlighted that the global financial crisis sent a strong message in the sense that ensuring financial stability is essential in terms

of macroeconomic stability, and in response the application of macroprudential policies has expanded as well.

(6) *Monetary policy and financial stability (special session with the participation of the Federal Reserve Bank of New York and the Bank of Korea)*. In this session *Joao Santos*, vice president at the Federal Reserve Bank of New York, said that monetary easing had an effect on the risk-taking channel in a verifiable way, which is identifiable, amongst other things, in the trends of the loan spreads of riskier companies. After this, *Dong Beom Choi*, financial economist at the Federal Reserve Bank of New York, examined the effectiveness of monetary easing in a heterogeneous risk taking environment. Subsequently, *Fernando Duarte*, financial economist at the Federal Reserve Bank of New York, held the last presentation of the conference on how optimal monetary policy should take into account the aspects of financial vulnerability as well.

The last ten years have resulted in profound changes in the world economy, including challenges such as the financial crisis, imbalances and structural problems, while the growth path and potential growth have eroded widely compared to the period before the crisis. In several regards, it has been proven that new approaches are necessary in the world, including a revaluation of past economic policy framework. A further increase in productivity may represent a solution to the challenges, especially via innovation and the development of education. The participants of the conference organised by the Bank of Korea also agreed that ensuring strong, balanced, inclusive and sustainable growth is necessary, while the economies must be rendered more dynamic using appropriate instruments. A new norm is emerging in the world economy, but adaptation to this indicates an area in question: where this takes place successfully, the next decade will also offer a path full of success.