Event Report

Panel: "America Has Voted: Impact of New U.S. President on Asian Markets"

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On January 29, 2009, Columbia Business School's Center on Japanese Economy and Business (CJEB), along with the Japan Society, Nomura Holding America, Inc., and the Women's Bond Club of New York, cohosted the panel "America Has Voted: Impact of New U.S. President on Asian Markets." Moderated by Leslie Norton, foreign editor of Barron's Asia, *the panel featured Columbia Business School's Alicia Ogawa, director of CJEB's Program on Alternative Investments; David Reesler, managing director and chief economist of Nomura Securities International, Inc.; and Jeffrey Young, chief economist of Platinum Grove Asset Management.*

The United States has witnessed a historic election coinciding with what moderator Leslie Norton called a "nor'easter of epic proportions in the markets and the global economy." The panelists' objectives included not only exploring the potential impact of the Obama administration on the Asian markets and economies but also recognizing that Japan in particular has valuable lessons to teach the United States. Mr. Norton quoted investor Jeremy Grantham: "Japan absorbed the greatest deleveraging in human history without incurring a severe depression. . . . I can only hope we do as well."

In evaluating the Obama Administration's impact on Asia, the panelists emphasized the pessimistic political and economic outlook, specifically in Japan. Alicia Ogawa of Columbia Business School noted that despite overwhelming enthusiasm for President Obama, there is a widespread notion that Japan's problems originate from within—that domestic policymakers are unable to come up with creative and aggressive economic policies. Jeffrey Young of Platinum Grove Asset Management said that during its "Lost Decade" of stagnation and deflation, Japan lost its faith in the ability of macroeconomic policy to achieve growth. In the 1990s, the United States lectured Japan on how to address its malaise, emphasizing the power of the free markets. In the wake of the United States' $700 billion bank bailout, Japan is now disappointed that the United States is not taking its own medicine. Thus, the question remains whether the Obama administration can ease this U.S.-Japanese tension and restore credibility to macroeconomic policy.

David Reesler of Nomura Securities International noted that not long ago there was a popular notion that the U.S. economy was decoupling from the economies of the rest of the world. The current financial crisis clearly shows this not to be the case: "We're still the largest economy in the world. When the United States catches a cold, the rest of the world catches the flu." The United States recently reported its worst quarterly GDP decline in 25 years, driven by a collapse in consumer spending that accounts for two-thirds of GDP. Not long after, Japan announced its worst quarterly decline in 34 years, pointing to the plummeting of external demand for key exports, such as cars and consumer electronics. Clearly, President Obama's most important challenge in the coming months is simply getting U.S. consumer spending back on track. When this happens, the rest of the world should follow.

Although the Obama administration will likely be seen as more protectionist than its predecessor because of its promotion of "fair trade" labor laws, Ms. Ogawa and Mr. Reesler nonetheless expressed optimism that international trade would remain open. Tariffs will likely not be part of the U.S. policy mix. The new administration understands the lessons of the Smoot-Hawley tariff, passed in 1930, which raised tariffs on more than 20,000 imported goods and subsequently deepened the Great Depression. Additionally, as one of the world leaders in energy technology, Japan has much to gain in an administration that has renewed the United States' commitment to green energy.

Mr. Young explained that the United States' historical policy of advocating market-based currency valuations would not change. Though Treasury Secretary Timothy Geithner's recent admonition of China's currency "manipulation" is based on the same principle, Mr. Reesler expressed disappointment that such comments were made before any formal articulation of President Obama's exchange-rate policy and that they exacerbated friction with a country whose capital flows the United States has become quite dependent upon. China's rationale is that in an economy heavily dependent on international trade, if interest rates are cut and fiscal policy is constrained, a policy of actively weakening the currency to bolster exports makes sense. Washington, however, argues that each country should strengthen its own economy through fiscal and monetary action. Weaker currencies in an environment where aggregate demand is already weak will not help the system.

In evaluating the likely impacts of President Obama's stimulus package, Mr. Young summoned Japanese history. The extent of Japan's fiscal spending is reflected in the rise of its ratio of government debt to GDP in the 1990s, from as low as 5 percent to as high as 150 percent. The Japanese example demonstrates that the success of the United States hinges on sustainability and coordination. Swings in fiscal impulse were drastic in Japan, as the government passed stimulus packages erratically, at times only to reverse them. Public-sector uncertainty thus bred private-sector inaction, as firms "sat on their hands" and halted investment. Additionally, Japan witnessed "open warfare" between its government and central bank. Fiscal stimulus is doomed to failure if the resulting rise in indebtedness raises interest rates and depresses private investment. That is why Federal Reserve Chairman Ben Bernanke has advocated for synchronization between the Federal Reserve and the government.

While such measures certainly do not guarantee success, the United States can hope to learn from Japan's past mistakes. The Obama administration must maintain consistency in its fiscal policy to deter private-sector complacency, while seamlessly coordinating fiscal and monetary policies to ensure stimulus efficacy. How President Obama will impact Japan and the rest of Asia remains to be seen. Yet despite a prevailing pessimistic outlook, Japan and the rest of Asia undoubtedly can find promise in the ability of the United States to swiftly take macroeconomic action in the face of financial crises and, ultimately, appreciate the lessons of the past.

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