Woodrow Wilson International Center for Scholars
Asia Program

THE SASAKAWA PEACE FOUNDATION

Looking Forward: U.S.–Japan Economic Partnership in the Post–Lehman World

Report of the 2nd Japan-U.S. Joint Public Policy Forum

December 8-9, 2010

Edited by Bryce Wakefield

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The Sasakawa Peace Foundation was established in September 1986 as a private nonprofit organization with an endowment from The Nippon Foundation and the Japanese motorboat racing industry. To achieve our goals of fostering international understanding, exchange, and cooperation, we encourage surveys and research, develop human resources, invite and dispatch personnel, organize international conference and other forums for discussion in cooperation with grantee organizations in the world.

笹川平和財団は、日本財団およびモーターボート競走業界からの拠出金により、1986年9月に設立された民間財団です。国際理解・国際交流および国際協力の推進を目的として、アメリカ、アジア太平洋地域を中心に、世界各国の団体と協力しながら、調査・研究、人材育成、人物招へいと派遣、国際会議開催などの事業の実施および助成を行っています。

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PREFACE

It's been three years since the world's economies were shaken and shattered by the global financial crisis. Serious questions about U.S. regulatory practices persist as the nation debates how to restore faith at home and abroad in its reputation as a global economic leader. Many of the nations of the world are going through similar periods of domestic debate, introspection, and adjustment in response to new realities. But our age of interdependence demands solutions and cooperation that transcends the borders of any one nation. As we learned all too painfully in 2008, when things go wrong among connected economies, ripples can spread quickly and destructively.

It was against this backdrop, in December 2010, that the Woodrow Wilson Center and the Sasakawa Peace Foundation (SPF) convened a two-day conference that brought together Japanese and American scholars and authors to explore the lasting implications of the financial crisis. Participants discussed important issues such as prospects for regulatory cooperation and the challenges presented by China's economic rise. The event was a continuation of a partnership established in 2009 when the Wilson Center and SPF first introduced the Japan-U.S. Joint Public Policy Forum. The annual conference complements the Wilson Center's other activities focusing on Japan and would not be possible without SPF's generous support and collaboration.

Additionally, the Wilson Center's Washington-based Japan Scholars Program, available to residents of Japan and other Japanese citizens, enables participants to conduct research on public policy issues of the utmost relevance to our two countries. During their time at the Center (usually two to four months), Wilson Center Japan Scholars also take part in events and meetings built around political, economic, and social issues related to northeast Asia in general and Japan in particular.

Yet even good friends will not always agree, as you'll discover when you read the following summary of the 2010 Japan-U.S. Joint Public Policy Forum. But in the spirit of civil discourse that we hold dear at the Wilson Center, participants were able to discuss the most sensitive matters of national interest in a productive and constructive manner. In fact, I am inspired by the good will exhibited by citizens of both nations while engaged in such a robust exchange of ideas. It's the type of conversation that needs to happen more often. And that's why I look forward to the next forum and to continuing the important work of the SPF-Wilson Center partnership.

Jane Harman
Director, President, and CEO
Woodrow Wilson International Center for Scholars

PREFACE

The Sasakawa Peace Foundation launched the Japan-U.S. Exchange program as one of our program pillars in 2008, and since then we have implemented many Japan-U.S. related exchange and research projects. Facing changes in the international environment and a variety of global issues, the foundation has collaborated with the Woodrow Wilson International Center for Scholars to carry out a Japan-U.S. Joint Public Policy Forum since 2009. We have invited professional experts from both countries to discuss how to coordinate Japanese and U.S. roles to better contribute to the international community.

In 2009, we chose "A World Free of Nuclear Weapons" as the theme for the first conference, and invited William Perry, the 19th U.S. secretary of defense. For our second endeavor in 2010, the theme of the forum was "Looking Ahead: Japan-U.S. Economic Partnership in the Post-Lehman World."

In 2008, Japan and the United States faced political and economic challenges. The world encountered a major financial setback caused by the so-called "Lehman Shock," and discussions regarding the relative decline of U.S. power as well as the rise of China generated debates among Japanese and U.S. policymakers and academics aimed at reassessing the current economic and financial systems. Furthermore, even though the American and Japanese economies had been respectively ranked as the first and second largest in the world since 1968, the year 2010 witnessed China surpass Japan's position.

Still, Japan and the United States have a significant role to play in the world. They remain world leaders in terms of economic scale, per capita wealth, investment, trade, and quality of life. Constituting only 7 percent of world population, Japan and the United States possessed 32 percent of the global economy, 24 percent of outward foreign direct investment stock, 17 percent of inward foreign direct investment stock, and 16 percent of world trade in 2008. Thus, for the future global economic recovery and stability, Japan-U.S. collaboration is still key to global economic management.

At this years' forum, David Wessel, an economics editor with the *Wall Street Journal* and a celebrated Pulitzer-prize-winning writer gave the first keynote speech. This was followed by Eisuke Sakakibara, a former vice minister of finance and international affairs. He led Japanese efforts to deal with the 1997 Asian financial crisis and has been a prominent figure in the field of international finance in Japan. Professor Keisuke Iida moderated the following question-and-answer session. We are grateful that these two well-respected keynote speakers helped to make the 2010 forum successful. Also, we wish to thank Professor Iida, who provided us with invaluable advice for coordinating and managing this forum.

We also had two great panel discussions on the second day. I would like to express my gratitude to all eight panelists who made intellectual contributions as well as to Professor Yoshiko Kojo, who moderated one of the panels. In addition, we appreciate the support of our media partner, the *Wall Street Journal Japan*, which was instrumental in helping with public relations efforts.

As an organizer of the forum, I very much hope that it will stimulate further discussion and cooperation between Japan, the United States, and beyond. Lastly, I would like to express our sincerest appreciation to all of those who have helped with planning and organizing this forum, as well as all the participants.

Jiro Hanyu
Chairman
The Sasakawa Peace Foundation

A TALE OF TWO CRASHES: LEARNING FROM JAPAN'S EXPERIENCE AND SCOPE FOR BILATERAL ECONOMIC COOPERATION

Bryce Wakefield

The onset of the recent global financial crisis, symbolized by the September 2008 collapse of the New York investment bank Lehman Brothers, prompted much speculation about the future of America's economy. One persistent theme was whether Japan's experience with recession could serve as either a negative example that the United States should avoid or a portent of an unpleasant American future. Shortly after Lehman's collapse, articles in several newspapers around the globe ran stories outlining Japan's economic "lost decade" of the 1990s as a warning to American financial regulators as to what might lie ahead. As the *New York Times* pondered in October 2008, the question on many minds was whether the United States was "the new Japan."[1]

There are enough similarities between the two economies to warrant such a question. Recessions in Japan in the 1990s and more recently in the United States were preceded by an availability of easy credit that led to real estate speculation and a corresponding boom in the property sector. In both cases, consumers and businesses were confident that their nation had discovered the keys to sustained economic success just before the burst of their respective economic bubbles. In both cases it was subsequently revealed that belief in sustained profits in the future led investment and loans companies either to circumvent lax regulation or even to commit outright fraud, in attempts to protect themselves and their clients. After the onset of recession, revela-

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tions about the trading behavior of such companies ultimately undermined confidence in their respective economies further.

The bubble economy and Japan's lost decade

In Japan's case, the speculative bubble that preceded the lost decade was inflated partly by currency manipulation. Although the yen rose somewhat after fixed international exchange rates were abandoned in 1973, by the mid-1980s international trade friction and the rapidly rising value of the dollar in currency markets led to suspicions in Washington that not only Japan, but other nations too, were artificially keeping the value of their currencies low to promote exports. There were increasing calls from within the United States to revalue global currencies relative to the dollar to address burgeoning U.S. trade deficits. In 1985, administrations in Tokyo, Paris, Bonn, and London agreed to intervene in currency markets to support a decline in the value of the dollar and in the U.S. trade deficit. Washington responded with a commitment to reduce its budget deficit. The multilateral nature of the arrangement notwithstanding, the revaluation of the Japanese currency against the American was the most significant among the currencies concerned.

IN JAPAN'S CASE, THE SPECULATIVE BUBBLE THAT PRECEDED THE LOST DECADE WAS INFLATED PARTLY BY CURRENCY MANIPULATION.

What happened next is the matter of some debate. One common interpretation is that the appreciation of the yen by 46 percent against the dollar by the end of 1986 was enough to fuel rampant speculation as cash-rich Japanese companies poured their funds into real estate investments. According to the International Monetary Fund (IMF), however, it was wide-ranging stimulus policies enacted to avoid an export slump as the result of currency appreciation that produced the economic bubble.[2] Whatever the reason, the heady days of the late 1980s and the early 1990s were characterized by booming investment gains, easy credit issued on increasingly leveraged assets, and conspicuous consumption leading to a degree of national confidence unprecedented in post-war Japan.

In late 1989, this financial bubble collapsed. On December 25, the Japanese government, hoping to avoid a hard landing, raised interest rates for the third time in seven months. Four days later, the benchmark Nikkei 225 Average, which stood at around 11,500 yen the year before the agreement on exchange rates, reached a high of 38,957.44 yen before crashing down. By August 1992, it had lost roughly half its peak value, and it now stands at around a quarter of its high point. Urban land prices followed, their value plummeting by roughly a third of their average peak value by the end of the lost decade and by another 40 percent of their value from 2000 to 2010.[3]

Throughout the 1990s, moreover, a series of scandals further eroded confidence in the Japanese economy. In 1991, for example, it was revealed that Nomura, by some accounts then the largest securities firm in the word, had breached financial regulations by compensating favored clients for trading losses. Although the securities firm probably did more than any other in Japan to clean up its act, in 1997 it was again in the spotlight, this time for paying protection funds to a real estate company connected to organized crime.[4] Nomura was not the only company accused of this crime,[5] and at the end of the decade, two senior Ministry of Finance (MOF) officials were charged with accepting bribes in exchange for providing firms with advance information associated with MOF audits.[6] Ironically, the bribery cases, which led to a further loss of confidence in the Japanese economy, came to light the year after more stringent anti-bribery regulations aimed at inspiring trust in the domestic financial system were put in place.

Measures designed to counteract deflation also had limited effect. Most of Japan's stimulus policies of the 1990s were implemented in a piecemeal, "limping" fashion, which critics argue rendered them less effective in promoting growth.[7] Between 1990 and 1992, seven fiscal expansions were implemented in Japan but were then cut short by governments committed to an agenda of restraint. In contrast, one comprehensive package implemented in 1995 appears to have stimulated the economy before being scaled back shortly afterward.[8] Whether stimulus policies implemented quickly after the recent financial crisis in the United States were effective is a point that will be debated for years to come, but a comparison with Japan would be a useful dimension to that debate.

America: the new Japan?

As in Japan during the late 1980s, an important factor in the American housing boom between 2000 and 2006 was easy credit. The loosening of regulation in the United States and elsewhere over previous decades meant that investment banks and hedge funds, not subject to the same regulations as more mainstream banks, constituted a shadow banking system engaged in high-risk lending practices. Sub-prime mortgages—often 100 percent adjustable-rate loans to individuals with poor credit histories—were one of the most prominent financial products offered by such institutions.

The problem was compounded by the securitization of vulnerable mortgages and was further exacerbated by a burgeoning trade in derivative products including credit default swaps—basically insurance policies guaranteeing the value of the securities. While they did not initiate the questionable securities, the major government-sponsored enterprises, Fannie Mae and Freddie Mac became active in guaranteeing them and also held many of the securities on their books. In part, these were motivated by their public charge to encourage home ownership by low-income individuals. At least as important, though, was the pressure to make sure their shareholders benefited from the enormous profits the securities generated.

MANY PROMINENT OFFICIALS AND COMMENTATORS WERE EXTREMELY OPTIMISTIC ABOUT THE FUTURE OF AMERICAN GROWTH.

Meanwhile, after the collapse of the dot-com bubble of the late 1990s, the Federal Reserve lowered interest rates to ensure liquidity in capital markets. Reflecting a loss of confidence in technology shares, stock markets also plummeted with the collapse of the bubble. As a result, other areas of investment became comparatively more attractive and, fueled by low rates and sub-prime lending practices, increased demand sent real estate prices skyrocketing.[9] In early 2005, house prices rose in the United States by 12.5 percent from a year earlier. Similar to Japan, as long as prices continued to rise, there were those willing to borrow beyond their current means for the promise of higher returns in the future.

Many borrowers in the United States were confident of this future because leading experts were telling them they had no reason to worry, a situation that mirrored the Japanese experience. Although some economists, such as Nobel Prize-winner Paul Krugman, pointed out the dangers to the U.S. economy of excessive real estate inflation well in advance,[10] many prominent officials and commentators were extremely optimistic about the future of American growth. In October 2005, Ben Bernanke, then chairman of President George W. Bush's Council of Economic Advisors, noted that while the housing market might cool, there was no bubble to go bust.[11] Months after housing prices began to fall in 2007, ratings agencies Standard and Poor's and Moody's continued to give top ratings to low-quality mortgage-backed securities. Indeed, a later Congressional report concluded that a late move by the two ratings agencies to suddenly downgrade ratings for such financial products on a massive scale was "perhaps more than any other single event . . . the immediate trigger for the financial crisis."[12]

Suspect dealings by companies and their executives also received much attention in the United States after the real estate bubble burst. As in Japan, such dealings served to create the image of Wall Street malfeasance as the root cause of the crisis. Legal experts pointed to lending executives who failed to fully disclose the amount of mortgage risk on their books or the amount of questionable loans they bundled into securities that they then sold to investors. Despite these concerns, by April 2011, the *New York Times* reported that financial regulators appeared to have asked prosecutors to take a more delicate approach to investigations of the executives involved, and that no high-profile participants in the crisis had been prosecuted.[13]

The conduct of executives after the onset of the crisis in the United States also left much to be desired in the eyes of the general public. The collapse of Lehman Brothers—the remnants of which were acquired by major financial houses including Barclays and Nomura—may have come to symbolize the financial crisis, but the subsequent federal government decision to shore up the financial system by making hundreds of billions available to other lending institutions created resentment among many citizens who were suffering because of the crisis. It was no surprise, then, that the payment of massive bonuses to banking executives immediately following government bailouts of their investment firms further raised eyebrows and undermined public confidence in both Wall Street and those who regulate its activities.

Setting the Scene

The similarities and differences of the Japanese and American fiscal crises, as well as the prospects for economic cooperation between the two nations is a rich area for debate and discussion. On December 8 and 9, 2010, the Woodrow Wilson International Center for Scholars and the Sasakawa Peace Foundation co-hosted their second annual Japan-U.S. Joint Public Policy Forum in Tokyo to focus on these issues. On the afternoon of December 8, the keynote speakers at this conference, **David Wessel**, economics editor for the *Wall Street Journal*, and **Eisuke Sakakibara**, Japan's former vice minister of finance for international affairs, outlined American and Japanese reactions to the recent financial crisis, as well as identifying future challenges for Japan and the United States and possible scenarios for the global political economy. Transcripts of their speeches follow this chapter.

ONE OF THE BIG QUESTIONS IN WASHINGTON RIGHT NOW IS WHETHER AMERICA CAN LEARN FROM MISTAKES THAT JAPAN MADE

On the second day of the forum, a number of scholars from Japan and the United States discussed the nature of the recent crisis, the post-crisis role of the United States and Japan, the future of the dollar-based financial system, the rise of alternative modes of capitalism—particularly in China—and the future of economic global governance in the context of the U.S.-Japan relationship.

The two keynote speakers both began by making the comparison between Japan's lost decade and the current economic situation in the United States. Wessel noted that one of the big questions in Washington right now was whether America could learn from mistakes that Japan made in order to "do better in getting out of the mess that is created when there is an asset bubble, a collapse of the banking system, and some experimentation in monetary and fiscal policy." Sakakibara remarked that he appreciated this approach, and wondered whether, facing their own crisis, "Americans, when looking at Japan's performance, now think Japan's response was all that bad."

Contrary to Sakakibara's hopes, it seems that prominent U.S. finance officials still view Japan as a negative example. Wessel pointed out that Ben Bernanke, now chairman of the U.S. Federal Reserve, had, during his time as an academic, "lectured the Bank of Japan for being uncreative and timid" during its crisis. Bernanke, whose reaction as Fed chairman to the recent financial crisis was the focus of Wessel's speech, thought that the best way to respond to the crisis on Wall Street was to experiment with a number of novel approaches, knowing some would work and others would not. Believing—incorrectly, as it happened—that political gridlock would completely stymie significant fiscal packages proposed by the Obama administration, Bernanke took the controversial step of implementing large quantitative easing measures—printing an extra $600 billion to force down interest rates and the value of the dollar in order to promote investment and exports. According to Wessel, even Bernanke was unsure that quantitative easing would work. But one of the main lessons Bernanke and others learned from Japan was that "doing nothing was the wrong thing for a central banker to do, and trying something, even if at best it has a chance of having moderate effects, is the right thing to do."

However, Sakakibara was not satisfied with claims that Japan did not act quickly enough in the early 1990s. Referencing Wessel's speech, Sakakibara stated that the problem with both economies is not that their managers "have little appreciation for fiscal or monetary policy." Rather, because the recession was the result of the bursting of a massive financial bubble, America, like Japan, is facing a "balance sheet recession"—a term coined by Nomura Research Institute economist Richard Koo. During such a recession, corporate interests use what cash flow they have to minimize debt rather than maximize profits in an environment of low and even zero percent interest rates, contrary to the predictions of classical economic theory. According to Sakakibara, "it is not necessarily a problem of determining what monetary policy is appropriate or where demand is insufficient." Bailouts and sustained fiscal stimulus may work to soften the recession, but it will take time for the private sector to complete the process of deleveraging.

Indeed, Wessel did not necessarily see the $800 billion of fiscal stimulus and tax cuts approved by the U.S. Congress and the massive quantitative easing measures as solutions to America's fiscal problems. Indeed, such measures might serve to create new troubles. Attempting to make cash and credit readily available to business and consumers runs the risk of promoting inflation. Nevertheless, Wessel stated that another lesson that the United States learned from Japan's lost decade is that even if the American government wanted to promote inflationary policies, it would be very difficult to achieve actual inflation after the asset bubble burst. With international competition for export markets still high, Wessel thought there was also a lot of slack in the U.S. economy, and that an upward wage and price spiral seemed unlikely.

THE RECENT RECESSION IS THE BEGINNING OF A MASSIVE GLOBAL TRANSITION AS WEALTH SHIFTS FROM WESTERN CENTERS OF ECONOMIC POWER

While Japan and the United States may be facing the problem of overleveraging in the private sector, there is one fundamental difference in the composition of public debt between the two economies. Ninety-five percent of Japan's debt is domestic. Throughout much of the postwar period, including the bubble of the 1980s, Japan's borrowing was backed by the savings of its own citizenry. Although Japan's debt is currently valued at around 200 percent of gross domestic product, Sakakibara noted that because of low interest rates in Japan, this debt burden is currently manageable. Meanwhile, as Wessel pointed out, Washington's ability to borrow more is largely contingent on the ongoing willingness of countries like Japan and especially China to continue to hold U.S. reserves. The U.S. dollar's position as the leading global reserve currency still makes it attractive to China, but with Washington running ever larger deficits, American financiers note that this situation cannot last indefinitely.

Sakakibara argued that the recent recession is the beginning of a massive global transition as wealth shifts from Western centers of economic power, including Japan, to Eastern nations, notably China and India. This shift could be accelerated, as Wessel noted, by a decision in China to compete in high-tech industries rather than relying on the economic attractiveness of cheap labor provided by the nation's vast population. Moreover, Wessel thought that lax Chinese intellectual property standards and a greater focus by American negotiators on China's manipulation of exchange rates than on copyright issues have meant that Chinese firms "have gotten very good at learning how to do what we do and taking it from us." Left unchecked in this way, unauthorized technology transfers augment China's economic advance and negatively affect American competitiveness.

Whatever measures Washington might take to mitigate its effects, Sakakibara saw the transition of economic power from West to East as a natural occurrence and noted that past transitions have been the cause of recession. Extractive imperial policies caused the decline of nations such as India and China and the rise of Europe in the 19th century, while the Great Depression of the 1930s in the West can be considered a transitional period marking European decline and the rise of an American-led global economy. America's recent recession, Sakakibara believed, symbolized nothing short of a "reemergence" of China and India after decolonization and the decline of economies in Japan, the United States, and Europe. Although he thought that this reorientation was likely to take decades, Sakakibara believed it was nevertheless inevitable, given that Western economic dominance since the industrial revolution has constituted some 150 years, "a fragment of time" in a world history normally characterized by Eastern economic advancement.

DESPITE ITS ECONOMIC WOES SINCE 1989, JAPAN IS STILL AN INCREDIBLY WEALTHY, SAFE, AND HEALTHY NATION.

Wessel was pessimistic about the future, stating his fear that for America the next decade might be lost. Indeed, he ended his speech by noting that because the situation in United States is so bad, the only political credit that Bernanke and the Obama administration could claim after avoiding another great recession—in itself quite an accomplishment—is that it could have been worse. Sakakibara, in contrast, was optimistic, noting that Japan's relatively modest growth in recent years is a sign of its maturity. Despite its economic woes since 1989, Japan is still an incredibly wealthy, safe, and healthy nation.

Sakakibara believed that Japan has entered a new phase in its existence where the pursuit of high growth is not an imperative and where its population can enjoy the gains of the past. Japan, according to Sakakibara, will never have America's status as a "young, dynamic nation." However, America's dynamism and Japan's maturity mean that "Japan and America are different but complementary. We can cooperate and learn from one another in a number of different ways."

Assigning blame

Despite Sakakibara's call for cooperation, one of the points of tension between participants from America and Japan during the second day of the conference was the question of blame for the financial crisis. **Koichi Hori**, one of Japan's best-known business consultants and chairman of Dream Incubator, a strategic consultancy firm listed on the Tokyo Stock Exchange, noted that the requirements of U.S. companies to report to their shareholders on a quarterly basis has resulted in a business environment within which short-term profit above all else influences investment decisions. Such a focus on profit is, according to Hori, at odds with principles of industrial capitalism, which often requires years of investment in a given concern before profits can be realized. The shift from an industrial economy to a financial one in the United States has thus made global economic flows far more volatile. Moreover, as **Masayuki Tadokoro**, professor of international relations at Keio University, also pointed out, the incentives that governments have provided to attract investors often lead to situations where profit accrues to private concerns but where the responsibility for absorbing the failure of high-risk enterprises lies with the public.

Hori, however, did not view the cause of the financial crisis merely in systemic terms, and noted that American financiers had to accept a large degree of responsibility for the recent recession. He noted that the creation of high-risk financial instruments such as credit default swaps and collateralized debt obligations, which tend to delegate or hide debt rather than deal with it, was symptomatic of an irresponsible, and even criminal, corporate culture on Wall Street. Hori also criticized American institutional investors such as prestigious universities and highly visible foundations that bought into the high-risk hedge funds to capitalize on their attractive rates of return.

While American panelists generally agreed with Hori and Tadokoro that there were problems with a system that made excessive risk a temporary virtue, they were less convinced that Wall Street financiers were engaged in "criminal or near criminal" activity. For example, in the course of researching his bestselling book, *Too Big to Fail*, **Andrew Sorkin**, a columnist with the *New York Times*, spent a great deal of time with the principal bankers, executives, and regulators involved in the onset of the crisis in the United States, and noted that in many cases, they were decent individuals caught in an unsustainable system.

INVESTMENT FIRMS IN EARLIER PERIODS HAD MORE "SKIN IN THE GAME."

As an illustration of the degree to which executives were confident that their own actions would not end in disaster, Sorkin pointed to Richard Fuld, chief executive officer of Lehman Brothers until the investment firm filed for bankruptcy. Unlike corrupt financiers involved in, for example, the earlier Enron scandal, who advised their investors to place their money in the company while dumping their own stock, Fuld did not sell off his Lehman shares, which at one point were valued at over a billion dollars. Although Lehman was heavily leveraged, Fuld believed that the measures he took in response to the crisis would work, and stayed with the company at the cost of his own personal fortune. Because of the actions of people like Fuld, Sorkin believed that most of the decisions made prior to and during the crisis were made in good faith, even if they were bad decisions.

Nevertheless, Sorkin did acknowledge Hori's point that during the 1960s, Wall Street had been guided by more robust ethical standards. This was, Sorkin said, a result of the fact that investment firms in earlier periods had more "skin in the game." They were investing their own money. After other companies and individuals increasingly invested in the stock market, financiers were under more pressure to post profits while at the same time their firms were less risk averse because losses to their clients no longer necessarily entailed as large a blow to their own balance sheets.

The difficulty of regulation

Because firms are not as exposed to risk as in the past, most speakers at the conference highlighted the importance of future regulation to correct either financial systems from spinning out of control or individuals from manipulating them. As Wessel mentioned in his keynote speech, the one advantage that Americans thought they had over their competitors was that their financial system was open and well-regulated, a notion that has been discredited during the recent crisis. Indeed, according to Hori and Tadokoro, Wall Street was fairly well regulated until the 1990s, when financial regulations were removed in earnest. Both attributed this new zeal for deregulation in part to America's triumph in the Cold War. With Marxism brought into disrepute, there was a new confidence in capitalism that led to more freewheeling financial practices and the repeal of legislation designed to temper the excesses of the market—the Glass-Steagall Act of 1933 separating investment and commercial banks, for example.

REGULATION NEEDS TO BE THOUGHT OF AS A FLEXIBLE AND DYNAMIC PROCESS RATHER THAN A SET OF RULES CARVED IN STONE.

Despite his opinion that most American financiers acted in good faith, even Sorkin noted that "Wall Street is a place that has a very short attention span, a very short memory and we will come back to this all over again." Hori agreed that "unfortunately on Wall Street two years have passed already but instead of learning lessons, they're like zombies. They're coming back up." Sorkin explained that much of the regulation passed since 2008 has been targeted at banks but has not included investment companies and private equity firms, which continue largely unregulated, and that there are still institutions that are "too big to fail." Part of the reluctance to break up each of the large banks into three or four institutions to avoid a repeat of 2008 is born from the need for the United States to be internationally competitive. As Sorkin asked, "how would we feel, from a competitive standpoint, ten years from now, when China has banks that are two and three and four times the size of our major institutions today?"

Many of the panelists believed that there is therefore a need, but not much enthusiasm on an official level, for a global approach to regulation. There are now institutions—notably, the Group of Twenty (G-20), which since 2000 has brought together finance ministers and central bank governors from advanced and emerging nations on a regular basis—that would be appropriate forums to address such issues. However, at the moment global standards are so diffuse—for example, capital requirements for European banks are much lower than in the United States—that it is extremely difficult to institute uniform regulations.

Moreover, as Tadokoro pointed out, innovative investors always find loopholes and exceptions. Thus, regulation needs to be thought of as a flexible and dynamic process rather than a set of rules carved in stone. This point was reiterated by **Kent Hughes**, director of the Wilson Center's Program on America and the Global Economy, who noted that history has demonstrated the unpredictability of global economic patterns. European investors of the 1910s, for example, were oblivious to the coming Great Depression and two world wars that would plague much of their future. Such unpredictability is likely to persist. Not only in areas of finance, but in trade and business, the emergence of a plethora of global institutions, operated by both states and private concerns, have, according to Hughes, enhanced the notion of "global governance"—interaction between national and transnational actors aimed at solving international problems. At the same time, however, they have made the international economic environment much more complex.

ATTEMPTS TO CREATE A GLOBAL FRAMEWORK TO LIBERALIZE WORLD TRADE FLOWS STILL REMAIN WOEFULLY INADEQUATE.

Indeed, many early predictions about the shape of the post-crisis global economy have already failed to hold true. As **Paul Blustein**, author and non-resident fellow at the Brookings Institution and former Woodrow Wilson Center Public Policy Scholar, noted, fears that economic turmoil would lead to widespread protectionism, as it did during the Great Depression of the 1930s, were unfounded. Nevertheless, Blustein believes that attempts to create a global framework to liberalize world trade flows still remain woefully inadequate. The Doha development round of the World Trade Organization (WTO) negotiations, for example, has not yet reached its conclusion, despite having started in 2001, and has come nowhere near its lofty original goals of lowering trade tariffs across the board, thereby encouraging economic growth and pulling millions out of poverty.

According to Blustein, Doha's failure has been compounded by a focus on smaller multilateral and bilateral trade initiatives such as the Korea-United States Free Trade Agreement and the Trans-Pacific Partnership. In the short term, Blustein argued, issues surrounding these agreements provoke irrational protectionist resentment based on national differences, while in the long term smaller agreements remove the incentive to implement truly global solutions to managing trade while excluding those nations that are already most reluctant to change their ways. Blustein noted that one way in which the United States and Japan could cooperate is by pressing forward with a truly global trade agenda and by convincing other nations also to do so, rather than relying on smaller multilateral agreements.

Capitalism versus capitalism

One of the reasons regulation of trade is so relevant to the recent crisis, according to Blustein, is that after committing itself to a massive fiscal deficit in order to pay for stimulus, the United States is now dependent on decreasing its export deficits in order to stave off further recession, which would be detrimental to the global economy as a whole. A major obstacle facing the United States, however, is the question of how to convince Beijing that maintaining large trade surpluses with the United States is not in China's ultimate interest. Although Blustein supported full Chinese participation in global trading regimes and is on record criticizing protectionist American moves against China, even he was concerned about recent Chinese displays of pride in its trade surpluses and political expressions of its newfound economic might. China's decision to place export restrictions on rare earth materials—a resource vital to Japan's hi-tech industries—was widely seen as political retaliation during a territorial dispute with Japan, and was one of several incidents in 2010 which made even pro-Chinese commentators think twice about Beijing's growing global influence.

Christopher McNally, a non-resident fellow at the East-West Center, underscored Blustein's concern by noting that the shift, highlighted by Sakakibara, from a global economic system centered on the United States to one centered on China would be accompanied by a struggle between "capitalism versus capitalism." The "Washington consensus"—the emphasis in America and other economies in the West on fiscal discipline and a minimum of government regulation of the economy as the most competitive form of national economic management—has been challenged by various alternative forms of capitalism in the past, not least from the "developmental state" model when the Japanese juggernaut seemed unstoppable. Nevertheless, since it was formed at the beginning of the 1980s, the consensus has proved resistant to these challenges.

However, the rise of China and other regional economies like India that see the role of the state as both an "arbiter of economic rules and at the same time a player in the economy" has occured at a time when the financial crisis has also eroded America's faith in laissez-faire economics. According to McNally, the idea of "state capitalism," where ultimately commercial and industrial concerns are guided towards serving political rather than economic goals, "has been restructured, rejuvenated and is now much more a force to be reckoned with than we ever thought." Whether "Sino-capitalism" or "Anglo-American capitalism" will provide better outcomes is a "highly profound, almost theological question about the rules of economic governance in the global system that is looming right over the horizon."

THE IDEA OF "STATE CAPITALISM"... HAS BEEN RESTRUCTURED, REJUVENATED AND IS NOW MUCH MORE A FORCE TO BE RECKONED WITH THAN WE EVER THOUGHT.

Indeed, Hughes believed that the recent crisis will force Americans to "recast Wall Street so that it again focuses on investments in the real economy, rather than a world of chasing paper." The United States, Hughes pointed out, is "the only advanced, industrial country that lacks an economic growth and competitiveness strategy," a fact that he believed the Obama administration would change over time as it responded to the need to balance the budget and generate a greater pool of individual savings.

Because of these demands, Hughes thought that the United States will "likely change its approach to capitalism…. [W]e will be learning and adapting some of the Japanese approaches, perhaps even some of the Chinese approaches, some of the German approaches." In this sense, the recent crisis on Wall Street may have the opposite effect of the 1989 burst of the economic bubble in Japan, where the subsequent recession encouraged a move away from administrative guidance of the economy towards greater deregulation. According to Hughes, the United States will continue to be a leader on trade and issues of global governance, but to do so it will need to continue to have its own strong economy and industrial base. In addition, "for the United States to be a leader it's going to have to be more nationalist to be internationalist"—it will have to think of ways to develop new domestic industries while scaling back its reliance on foreign energy imports. There is therefore plenty of scope for U.S.-Japan cooperation in areas like energy conservation, green technology, and lessons on how to restore and maintain America's industrial base in the face of rising global competition.

China, trade, and the problem of American debt

Indeed, greater reliance on domestic U.S. manufacturing will serve to alleviate American trade imbalances with China, which may also provide peace of mind for Japan's central bankers. According to McNally, the current situation where the Chinese government finances ever more American debt while the United States buys ever more Chinese goods is unsustainable. It is also a potential problem for Japan. According to **Motoshi Suzuki**, professor of government at Kyoto University, Japan's satisfaction with the global trading system, undergirded by both American consumption and U.S. protection over much of the global commons, saw Tokyo extend massive loans to the United States in the 1980s, becoming the world's largest creditor in the process. While China has generally followed Japan's lead in this sense, it is clear from official statements that Beijing is concerned about U.S. debt levels and the continued value of its own dollar reserves. Moreover, doubt in Washington about Beijing's willingness to continue to fund American debt would find

Japan and other nations in a situation where they may be expected, perhaps impossibly, to offset Chinese loans to the United States by providing their own.

Even if Beijing intends to continue acting as a creditor for the United States, some commentators, such as **Osamu Tanaka**, a researcher at the Japan-China Organization for Business, Academia and Government Partnership, believe that domestic issues will restrain Chinese growth—and therefore China's ability to extend loans—in the near future. Tanaka cited a number of factors in China that led him to this conclusion, namely: a shortage of natural resources like water; the inability of export demand and domestic consumption to keep up with China's massive production rates; massive and growing income disparities leading to social problems; disparities in the economic growth between urban and rural areas in China; lack of innovation stemming from an overreliance on capital from overseas; a focus on heavy industry at the expense of services; and a weak agricultural sector.

Indeed, it has perhaps already been demonstrated that even if China's leadership understands the importance of transitioning from an export-led economy, it has limited flexibility to do so. Despite earlier announcements that it would move to encourage personal consumption and the development of tertiary industries, the Chinese government reacted to the global crisis by providing stimulus funds to heavy industry and engaged in quantitative easing to lower the exchange rate. McNally pointed out, however, that because China's rise is so significant to the health of the global economy, there was plenty of scope for Japan—which will continue to rebalance away from exports as its population ages and begins to draw down savings—the United States, and China to discuss ways of both encouraging and smoothing the transition from an export-led Chinese economy to one more focused on domestic consumption. At the same time, the United States needs to commit to a different kind of rebalancing at home, encouraging personal savings, investment, and long-term increases in productivity and infrastructure development.

> **AMERICA AND JAPAN NEED TO ENGAGE IN SERIOUS DISCUSSION ABOUT CREATING A GLOBAL TRADING REGIME WITH CLEAR, ENFORCEABLE RULES.**

Blustein, however, warned that given recent Chinese moves, cooperation with Beijing could not be taken as given, and that the United States and Japan needed to consider scenarios to deal with possible future Chinese reticence on trade and currency issues. Blustein pointed out that the rare earth episode demonstrated that the current global trade framework is insufficient to deal with problems that an increasingly confident China might pose. Blustein therefore underscored the necessity to make it clear to China that Washington can and will retaliate against moves by Beijing to bend the rules of free trade. While economic friction and even a full-fledged trade war between China and other nations organized around the United States would be devastating for the American and Japanese economies, Washington was in a position to make the economic consequences for China far worse in such an exchange. Blustein believed that there were several threats at America's disposal to discourage Chinese trade belligerence. Withdrawing, along with like-minded nations, from the WTO in order to set up an alternative institution and then punishing China with tariffs on its exports if it remained uncooperative would be one extreme option. America and Japan, according to Blustein, need to engage in serious discussion about creating a global trading regime with clear, enforceable rules.

CONCLUSION

Besides offering a general review of the financial crisis on Wall Street that has shaken the entire globe, the 2010 Japan-U.S. Joint Public Policy Forum highlighted the notion that the recent crisis may signify two major shifts in the global economy: first, a geographical shift, as China and other developing Asian economies, such as India, increasingly become important players; and second, a conceptual shift, as national government involvement in economic management becomes the global norm rather than a crisis mechanism.

While the extent of either shift is not yet clear, it is apparent that in the short term economic managers within national governments will be sensitive, if they were not before, to the quality of financial services offered within their jurisdictions. Nevertheless, there is a need to remember the lessons learned about the behavior of financiers prior to the global financial crisis. In that sense it may be appropriate and even constructive for foreign commentators to identify and criticize individuals whose actions led to the crisis, and to condemn policies that encouraged a dangerous tolerance for risk. Indeed, there is no shortage of Japanese commentators, having experienced their own nation's economic problems, who can offer such criticism for the benefit of their American counterparts.

However, there is also scope for transnational learning and international cooperation to deal with change and uncertainty in the structure of the international economy. Indeed, it is apparent that officials in the United States learned both negative and positive lessons from Japan's lost decade and have acted accordingly. As the world's two richest democratic capitalist nations, the United States and Japan share a common national interest in continuing to foster smooth and open international economic relations. It is therefore essential that Washington and Tokyo work together to uphold global financial and trade frameworks, to share ideas on the appropriate shape of their respective domestic economies, and to deal amicably, if possible, with the rise of China.

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LEARNING FROM JAPAN: BEN BERNANKE AND THE U.S. RESPONSE TO THE FINANCIAL CRISIS

David Wessel

American economic journalists, like many American economists and policymakers, for many years looked at Japan and believed that they were smarter than the Japanese because of the mess that was made of the Japanese economy. Today we look at the situation and realize that it is a little bit harder than we thought to get out of one of these messes. I am glad to be able to share my perspectives on the U.S. economy and to learn something about Japan because I am a little worried that we have more in common with Japan than we would like: a great deal of economic despair, a whiff of deflation—although not as much in the United States as in Japan—and we may also be about to experiment with a dysfunctional political system. So I am hoping to learn something here.

ARE WE BEGINNING OUR LOST DECADE? IS THERE ANYTHING WE CAN LEARN FROM MISTAKES MADE IN JAPAN?

Looking at the world through Ben Bernanke's eyes

Today I ask you to look at the world as Chairman of the U.S. Federal Reserve Ben Bernanke looks at the world. Bernanke is a man who, in my opinion, helped save us from another great depression, but who now faces something that we did not expect or ever thought we would live through, something

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that might have been called "The Great Stagnation." The big questions in the United States right now are whether we are beginning our lost decade, and whether there is anything we can learn from mistakes made in Japan so that we can do better in getting out of the mess that is created when there is an asset bubble, a collapse of the banking system, and some experimentation in monetary and fiscal policy. These things look a lot easier in the economic textbooks than in the real world.

Ben Bernanke of course was a very smart young man who grew up in a small town in the state of South Carolina. He was one of these young men who was so smart that everybody in town knew what his scores were on the SAT tests that Americans take in order to go to college. He went from the small town of Dillon, South Carolina to Harvard and the Massachusetts Institute of Technology, our great universities, and became a scholar, ironically, of the Great Depression. He studied the work of the great economists Milton Friedman and Anna Schwartz, who taught him that it was the Federal Reserve's fault that we had a Great Depression, because it had been too stingy with credit at just the wrong moment.

THEY DID NOT THINK IT WAS LIKE WHAT HAD HAPPENED IN JAPAN.

Schwartz and Friedman taught that the banks collapsed because money was too tight, because there was not enough credit. Bernanke's elaboration of that theory was that the collapse of the banks was an independent cause of how terrible the Great Depression was to the United States; the collapsing banks clogged the arteries of the American economy and made it impossible for it to function. This seemed a very interesting intellectual and completely irrelevant body of work when Bernanke became chairman of the Federal Reserve in 2006, taking the throne that he had inherited from Alan Greenspan. He promised at the time to pursue the policies that Greenspan had pursued. After all, the American economy was having a great run: low inflation, low unemployment, strong productivity growth, a technological revolution. It never occurred to Bernanke that maybe something underneath was rotten.

In fact, in the early stages of the crisis he was in what I like to call in the period of denial. Bernanke and U.S. Treasury Secretary Hank Paulson did not think that there was a significant housing bubble in the United States that could do so much damage if it burst. They did not think it was like what had happened in Japan. So they assured us in words chosen very carefully that the problem was contained, meaning that there would be so many other strong aspects to the economy and that this would not be enough to push us into a deep recession. At the end of 2007 and the beginning of 2008, however, Bernanke realized that his diagnosis was wrong. At that point we had the good fortune in the United States to have the economic equivalent of a paleontologist. Bernanke had studied something that was extinct, the Great Depression, and suddenly on the horizon was the economic equivalent of a dinosaur. He recognized it for what it was. His colleagues thought he was crazy. His colleagues thought, "this is what happens when you get an academic as chairman of the central bank. He studies one thing and then when something happens that is the only lens through which he can see it."

But Bernanke responded very forcefully at the beginning of the crisis and he did it largely alone. The Federal Reserve filled a vacuum in the United States government, and demonstrated that it was the only organ of government that was able to deal with the situation quickly. If the United States is ever attacked by nuclear missiles, the president has the power to fire back. I am sure that Barak Obama has some secret launch code on his Blackberry. But the government of the United States did not have the power to fight this virulent financial attack. Only the Federal Reserve did. Of course the Fed cut interest rates to zero, a condition Japan is familiar with, and engaged in a massive amount of asset purchases in order to try and keep the economy moving.

With the benefit of hindsight we recognize that it would have been a lot worse had this not happened, but it was not sufficient. So after the collapse of Lehman Brothers, to which the title of this forum speaks, after it became not just a serious illness but a panic, a crisis like most people had never thought we would go through again, Bernanke got some allies. He convinced the Congress of the United States, with some great difficulty, to appropriate $700 billion to essentially recapitalize the banks. When President Obama was elected, Bernanke got a massive amount of fiscal stimulus, and the combination of asset purchases, interest rate reduction, and stimulus seemed to get us off the floor.

Then the government did something which I think none of us thought would work, but it turned out to be very successful. They conducted "stress tests" of the banking system. It was a flop at the beginning. When new U.S. Treasury Secretary Tim Geithner announced it, the stock market fell and people thought it would never work. But it—magically, almost—restored some confidence in the banking system. So we had a strategy that made some textbook sense. We had easy monetary policy, interest rates were lowered to zero and the government did a lot of quantitative easing, there was a large fiscal stimulus, recapitalization of the banks, and America was on track to repairing its economy. Americans learned that their inadequate, if not nonexistent, regulatory system in the United States was a huge problem for much of the banking industry. Some of the insurance companies were engaged in something that can only be described as high-stakes gambling without having enough money to pay off the bets when they lost. Commercial banks were well-regulated but this shadow banking system exposed a real weakness in our system. Our response has been to place more capital in the banking system and impose more regulation, but there is no solution yet to the problem with which Japan is only too familiar, of having financial institutions that are simply too big to fail.

BERNANKE IS THE HERO OF THIS STORY, BUT TO MOST AMERICAN PEOPLE HE IS A VILLAIN.

Learning from Japan

So that brings you to about the middle of 2009. In the middle of 2009, after the worst recession the United States had seen since the Great Depression itself, the U.S. economy began to grow again. In my book, Bernanke is the hero of this story, but to most American people he is a villain. Most American people think Wall Street got bailed out—Goldman Sachs is paying bonuses again—and Main Street did not.

You can understand why they think that. Today in the United States we have 9.8 percent unemployment. We have over six million people who have been out of work for more than six months, four million people who have been out of work for more than a year, just counting the people who still say they are looking for jobs. We have a complete loss of faith in our government and other institutions. We had convinced ourselves that even if we do not make things as well as you do in Japan or as cheaply as they do in China or Mexico, the one thing we thought we knew how to do was run a sound financial system. We learned that we were not too good at that either, to the damage of the world economy.

So we have an unpopular Federal Reserve, an American public that has lost faith in the institutions of government and an extremely, extremely unsatisfactory economic outcome. We have had growth, but we are not growing fast enough to bring down unemployment. We lost *eight and a half million jobs* in the recession, and we have gained back just one million. The forecasts of the Federal Reserve, which assume sound and prudent monetary policy, have us far from full employment for the next two or three years. It will be 2014 before unemployment gets back to a level that we consider normal. The banks are not really lending. Housing prices have basically stopped falling, but they have not started rising. One out of every four Americans with a mortgage has one that is larger than the value of his house. If these people sold their houses today, they would not get enough money to pay their loans back.

BERNANKE WAS NO SHY CRITIC OF JAPAN WHEN HE WAS AN ACADEMIC.

So we are sitting there in this unsatisfactory situation, worrying and explicitly worrying, that we have become like Japan. We thought we learned the lessons of Japan and we moved more forcefully on fiscal and monetary policy and more aggressively and quicker to address the problems of our banking system. Bernanke was no shy critic of Japan when he was an academic. He lectured the Bank of Japan for being uncreative and timid. So he was determined—and he was—to be both creative and bold. He believed that in a crisis, a central banker must try novel approaches knowing that some of them will work and accepting that some of them will not. So he adopted all sorts of new and weird ways of lending to business in order to try and get the economy going. But despite all that he found himself in a situation where the mandate of the Federal Reserve in the United States is maximum sustainable employment and price stability. We have neither. We have unemployment well above any definition of sustainable unemployment. And we have inflation below what they consider price stability—about 2 percent—and inflation is falling, or threatens to fall.

So it was into this vacuum again that Bernanke stepped with what has become another of the controversial aspects in his leadership of the Fed, the practice of quantitative easing, of printing another $600 billion to buy U.S. treasury bonds in the hopes of pushing down long-term interest rates, inflating the stock market and, as a side effect, cheapening the dollar so that we can get our economy growing again. He probably did not think it was a very promising approach. I do not think he over-sold its potency. But he had a choice. He believed that the political system was unable to act, to do fiscal policy, and that doing nothing was worse than doing something.

THIS WAS A LESSON THAT HE LEARNED FROM STUDYING JAPAN: DOING NOTHING IS THE WRONG THING FOR A CENTRAL BANKER TO DO

This was a lesson that he learned from studying Japan: doing nothing is the wrong thing for a central banker to do, and trying something, even if at best it has a chance of having only modest effects, is the right thing to do. That is what he did. It has met with a firestorm of criticism from inside the Federal Reserve, from the Republicans in Congress and from emerging markets around the world. When the West—the United States, Europe and Japan—run low interest rates at a time when emerging markets are strong, the money rushes to emerging markets and pushes up the value of their currencies, at least the currencies of those countries that let it rise. Since China will not let its currency rise, other currencies rise very fast. The Chinese economy is like a dam: money cannot go there. It goes to other places. It makes life miserable for Korea, Thailand, Malaysia, Brazil, Israel, and South Africa, which hold their reserves in U.S. dollars and allow their currencies to float. Those governments have criticized the United States for the effect that quantitative easing in the United States has on global exchange rates.

Inside the Federal Reserve there are some people who think quantitative easing will not work and there are some people who think it will work so well that we will get an outbreak of inflation, even though we have a lot of slack in the economy. Among the new Republicans in the U.S. Congress, there are those who see Bernanke's close working relationship first with the Bush administration and now with the Obama administration as kind of a loss of the Fed's political independence. So if Obama is for something and Bernanke does not criticize it, they think that Bernanke is on Obama's side. And when Bernanke does quantitative easing and Obama defends it, they think that Obama is on Bernanke's side. So they have kind of mushed this all together and if Bernanke's for it, they are against it. So he finds himself in a very difficult and tricky situation.

I think the reason he did this quantitative easing was because he did not think the political system would come through with what he would recommend as the optimal fiscal policy: a dose of fiscal stimulus now coupled with some credible long-term deficit reduction later. In what surprised me, frankly, a good story broke in Washington as soon as I left town to come to Asia. The president and the Republicans came to terms on what amounts to a rather significant new fiscal stimulus. In addition to extending the tax cuts that President Bush put through that were to expire at the end of this year, they have agreed to cut the payroll tax by two percentage points, which will mean as much as $2,000 in tax breaks for working people who make $100,000 a year. They are going to provide big incentives for business investment. Businesses will be able to write off 100 percent of their capital expenses next year. The federal government will extend the unemployment benefits that were expiring for all those people I mentioned earlier who have been out of work for a long time.

Taken as a whole, this amounts to fiscal stimulus equal to about 2 percent of gross domestic product (GDP), or $900 billion. This is a very big move and it was informed by some textbook economics; the Keynesian lessons that are being studied and restudied and relearned. But also some looking at Japan and saying that "Japan always seemed to be too little, too late, so we are going try and avoid that in the United States." It is a grand experiment. You know, it would be really interesting if you did not live there.

The economists on Wall Street estimate that this new package will add about a half percentage point to growth and GDP. GDP is growing at about 2.5 percent a year, maybe a little faster next year. They think this could add as much as a 0.5 percent. That is a significant lift to the economy. It could help us bring down the unemployment rate. It is not through Congress yet.

Ironically, the Republicans are very happy with this package, it is all tax cuts, and it includes a very sweet change in the estate tax that we charge people's families when you die, known as the death tax, or the inheritance tax. A number of the Democrats on the left are very angry about this and say they will vote against it. To an extent, Obama has been lecturing them, in not so many words, saying, "In case you didn't notice, we lost the last election, and the price of losing the election is this kind of compromise."

BERNANKE HAS DONE EVERYTHING HE CAN DO.

The president decided that getting the economy moving again was essential to his re-election, so he was willing to make a lot of concessions to the Republicans, who decided that they would be able take credit for making the president eliminate tax cuts on the wealthy if the economy improves. So we have this wonderful political compromise. I recommend this to Japanese politicians. You get a good strategy that everybody agrees is in their own political interests, and for which both sides are going to take credit if it works. It is really an unusual circumstance. If it does work, we will be very lucky and very happy. But unfortunately I think we are in for a rough ride despite this government activism.

The risks of stimulus

Let me talk a little bit about the risks that I see. In terms of the U.S. and global economies, Bernanke has done everything he can do. Now it is the turn of the political authorities. So what does Bernanke have to worry about? Unfortunately the list is rather long. And that is a little bit frightening.

The first thing is, of course, is that he might have overdone it. We might get an outbreak of inflation. I was stunned that when Bernanke went on *60 Minutes*, the very popular TV show in the United States, and he was asked whether he worried that printing all this money would lead to inflation. He said he was 100 percent certain, *100 percent certain*, that inflation would not be a problem. I have never heard a central banker say he was 100 percent certain of anything. So I was a little stunned about that and I have a feeling that if he had to do that interview again he might not have used that language. But that is one risk. I do not think it is a very big risk, given the amount of slack in the U.S. economy, the amount of competition from imports and so forth, and an upward wage and price spiral seems unlikely. As you have taught us in Japan, it is a lot easier to want to get inflation up than to get it up than we ever thought before.

Now, one huge difference between the United States and Japan is when we run a fiscal deficit we borrow the money from China. You borrow it from yourselves. So we are quite exposed to the possibility one day that the Chinese will decide to stop lending to us, if they can ever find another currency in the world to put their money into. The absence of alternative reserve currencies seems to be our best asset. No matter what problems we have, Europe looks worse and Japan does not look so good either, and the Chinese are continuing to put their savings in our economy. That allows us to run big fiscal deficits at low interest rates and not have the dollar fall through the floor. This will not go on forever. I can confidently predict that. I have no idea when it is going to end. There is a new report out by McKinsey this week that predicts that China and India are likely to invest a lot more and to save somewhat less over the next several years. The report predicts that what we have called—what Bernanke called—"a global savings glut" could become a global savings dearth and lead to a very big increase in long-term interest rates.

I HAVE NEVER HEARD A CENTRAL BANKER SAY HE WAS 100 PERCENT CERTAIN OF ANYTHING.

Bernanke has to worry about this. He is the keeper of the United States dollar. He cannot do much if the rest of the world loses confidence in our ability to manage our affairs. He will just have to defend the dollar. We have a very serious problem now in America, because as this last episode shows, nobody in the United States, especially the wealthy, thinks we should pay more taxes. The United States has a huge deficit and a huge—although small compared to Japan—debt to GDP ratio. And we have no plan to get out of it. We are at risk of becoming the world's largest subprime borrower and we have yet to show any political consensus to do anything about it. In recent weeks there has been a lot more talk about the deficit but there has been as yet no action and I would not be surprised if there is no action.

Third, the residue of this recession is a huge number of people who have been out of work for more than a year. Many of them are never going back to work. We are not used to that in the United States. That is a problem that we used to think was a European problem: large numbers of unemployed people. The recession has accelerated a lot of changes in the U.S. economy and some of these people do not have skills that employers want. This is going to have long-lasting social and economic consequences.

Fourth, one of the side effects of the crisis is, as I mentioned earlier, a great loss of confidence in American institutions on the part of the people. We have a very poisonous political atmosphere. Perhaps the deal that Obama cut on taxes is a sign that the Republicans and Democrats are going to work together. I hope so. But there is no guarantee about that. And as you know here, when politicians seem to prize their political advantage over getting something done for the country, you can have prolonged gridlock that leads to very bad economic conditions.

WE HAVE A VERY POISONOUS POLITICAL ATMOSPHERE.

Remaining Problems

The United States has some advantages over Japan. America moved more quickly to address our banking system, it enjoys a growing population, and we have rising productivity, which is a sign of something good and dynamic happening in our economy. I am sure Bernanke is glad to have his problems and not Japan's problems. But we have some problems that we have not figured out how to solve. Some are like Japan's and some are not. Those problems are not going to lend themselves to a little bit of printing money or raising taxes, and those problems have been exacerbated by the crisis. I have three in mind.

One is that the United States is not quite sure how to compete with China. We had a model that we understood, which was that we would buy a lot cheaply from China and China would lend us the money to buy it. This was working pretty well. But the Chinese decided that they do not want to make toys and sneakers for the rest of the century, and they are very rapidly moving up the technology ladder. We had a story in the *Wall Street Journal* this week about how the Chinese had bought a Russian fighter plane and then cancelled the contract because they figured out how to make one on their own. American businesses that I talk to are much less worried about the exchange rate, the RMB-dollar exchange rate, than they are about intellectual property in China, that the Chinese have gotten very good at learning how to do what we do and taking it from us. In order to do business in China you have to expose your technology to them, and the United States has not figured out how to deal with that.

Also, the United States is at great risk of having a very efficient manufacturing systems whereby labor intensive products are made in China, whereas if a product can be made efficiently without so many workers, it gets made in the United States. General Electric has moved a refrigerator factory from Mexico to Kentucky in the center of the United States. They say it takes two man-hours of labor to make a refrigerator. So they do not worry about wage rates in the United States because they do not employ very many people to make refrigerators. We have not equipped our workforce to deal with that situation. We have a workforce that cannot find jobs. High-end jobs, creative people, software, college professors, newspaper columnists, all those people up here, they can find jobs. At the low end, we are creating jobs for people who work in nursing homes or people who do speech therapy or people who wait on tables or collect garbage, or produce items that cannot be exported, or services that cannot be outsourced. So at both ends of the spectrum we are creating jobs. But we are not creating middle class jobs, the kind of jobs that you used to be able to have at a factory, and we do not have an education system that functions well enough to create them. There is nothing that monetary or fiscal policy can do about that.

WE HAVE A WORKFORCE THAT CANNOT FIND JOBS.

I think Americans are in the post-denial phase. I think they understand that our K-12 education system is inadequate. I noticed in the paper just today that the international science and math competition in Pisa found that students in Shanghai are doing much, much better than a cross section of students in America. We do not know how to fix it, but we recognize we have a problem, and that is a big change.

Finally, as a consequence of all these issues we have developed in the United States an ever-wider gap between the haves and the have-nots, between the winners in the labor market and the losers in the labor market. We have tolerated this for a while. It is not susceptible to easy fixes. Government can redistribute, but redistribution in the United States is very unpopular at the moment. The size of the fiscal deficit means that it is going to be politically difficult to raise taxes on people to pay our debts once and then raise taxes on the successful people again to support the people at the bottom. We have not found a way to deal with that.

It could have been worse

So the bottom line here is that we did avoid a Great Depression and that really is some accomplishment. But the best that Bernanke and Obama can tell the American people is this: It could have been worse. And that does not convince people.

There is a politician in the United States named Barney Frank who is the chairman of the House Financial Services Committee, a job he will lose when the new Congress comes in. He is my favorite politician because he is the only one that has funny lines about finance. He said once to a bunch of economists that he envied them because they had available to them what he called the "counterfactual." Economists can imagine what would happen if they had not acted. Frank says, "That may get you tenure at Harvard or Tokyo University, but it doesn't win you elections." Nobody ever got re-elected with a bumper sticker that said, "It would have been worse if not for me."

And that, if Bernanke and Obama were hanging a banner on the White House and the Federal Reserve building, would be the honest slogan. For Americans, who are optimistic and ambitious and impatient, that is not good enough. So I hope that if I come here ten years from today I will tell you that we did not have a lost decade. But I am afraid that we will.

THE ANATOMY OF THE INTERNATIONAL CRISIS AND JAPAN'S PLACE IN IT

Eisuke Sakakibara

Translated by Bryce Wakefield

A lost decade for the United States?

I was extremely interested to hear Mr.Wessel's assessment of the economic situation in the United States. It was especially interesting to hear about the many similarities there are between America today and Japan in the 1990s. At that time, when I was in the government, I remember being often told by my American counterparts, then-U.S. Treasury Secretary Lawrence Summers and Undersecretary Tim Geithner, that Japan had done too little too late to avert its crisis. In fact, we in the Ministry of Finance hammered out appropriate financial policies and the Bank of Japan responded to those policies. However, American officials criticized our actions for being insufficient and overdue.

Some are saying that America has considered the Japanese experience and, to avoid falling into the same slump as Japan, is rapidly implementing fiscal and monetary policy. It is not going terribly well. While it is a little too harsh to say that the same Americans who criticized Japan's reaction to its crisis have come to eat humble pie, I wonder whether Americans, when looking at Japan's performance, now think Japan's response was all that bad.

To phrase this differently, the current problem is not that America and Japan have little appreciation for fiscal or monetary policy. America's inflated economy resembles the situation in Japan during the late 1980s, when Japan had a huge asset bubble. At that time the Nikkei stock market index soared to an unprecedented 40,000 yen and real estate prices also rose sharply. Because that bubble burst, Japan was thrust into the recession of the 1990s. As

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economist Richard Koo notes, balance sheet recessions such as Japan's cannot be resolved simply by relying on fiscal and monetary policy to stimulate the economy. In other words, balance sheet adjustments take time, and that explains Japan's "lost decade" of the 1990s.

In the United States we have just witnessed the burst of an asset bubble. From 1995, starting with Treasury Secretary Robert Rubin, official U.S. policy held that a strong dollar was vital to the American national interest. Over the same period, financial assets in America quickly swelled to $100 trillion. Collateralized debt obligations, credit default swaps and other derivatives proliferated. The September 2008 collapse of Lehman Brothers, which had been using such securitization mechanisms, came to symbolize the bursting of this bubble and the wider financial crisis of 2008 to 2009.

IT IS SAID THAT JAPAN LOST A DECADE, AND I THINK IT IS ENTIRELY POSSIBLE THAT THE UNITED STATES WILL LOSE ONE TOO.

Therefore the problem that the United States is embracing now is similar to the one that Japan embraced in the 1990s. In other words, the balance sheet is the issue: it is not necessarily a problem of determining what monetary policy is appropriate or where demand is insufficient. Of course, the United States is bailing out financial institutions with public funds faster than Japan did, but it will take some time to adjust to this balance sheet recession. It is said that Japan lost a decade, and I think it is entirely possible that the United States will lose one too. The problem, in other words, is structural.

The anatomy of the global recession

So turning to my main theme of this speech, I believe that the world is entering into a long-term structural recession of the type seen in the 1870s. As Mr. Wessel has already discussed, Chairman of the Federal Reserve Ben Bernanke's actions ensured that we did indeed avoid falling into a great depression of the kind seen in the 1930s. Considered in that light, Bernanke dealt with the situation very well. But there will be a moderate 1870s-style recession in the developed nations of North America, Japan and Europe that will last for an extremely long time. During the 1870s growth averaged about

1 percent for about a decade. While stocks did not go into free-fall, this meant that the world economy was placed in an extremely difficult position. It is the situation in which we now find ourselves.

Europe, not only the United States, has clearly been enveloped by these structural problems. The formation and expansion of the European Union (EU) and then the Euro zone were ultimately only possible after Germany and France reached out to one another after the Second World War. That once-expanding notion of Europe is now unraveling. Fiscal crises in Greece and Ireland are already occurring, and before that Hungary and Latvia were placed under International Monetary Fund (IMF) regulation. Europe's weak link has long been Eastern Europe, including the three Baltic States, and now Southern Europe is also coming undone. People are saying that, Portugal, or Spain, or even Italy will be the next national economy to disintegrate.

THE EU IS IMPLODING BECAUSE OF WEAKNESS IN EASTERN EUROPE, THE BALTIC STATES, AND SOUTHERN EUROPE.

Europe's current structural problems stem from the inability of European nations to support their welfare states and large governments. That is, in 2008 and 2009 the world economy collapsed along with the American financial system. It will recover in a decade, but it will be in a slump for the next eight or nine years. Within that slump it will be clear that countries cannot support the European model of the state, with its heavy emphasis on welfare. As the economic circumstances worsen, tax revenues will not rise to support the European model.

Indeed, Europe provides a case where there is not simply a financial crisis, but where the methods of financing the sovereign state have taken an unusual turn. Unlike Japan and the United States, the taxes plus social insurance payments often amount to close to 60 percent. In the United Kingdom and Germany, for example, they are also over 50 percent. This burden supports extremely large governments.

Because of this burden, the situation in Europe has become extremely serious. Certainly the crisis has been averted for the time being because the IMF and the EU injected more than three years' worth of national bonds issues into the Greek economy. However, it will be extremely difficult to adjust Greek finances by lowering pensions and public salaries and raising tax revenues. Such measures require deliberation and passage through the national legislature and must therefore have a popular mandate. Will Greece be able to muster the legislative support for the measures it needs to implement? It is highly likely that the answer to this question is "No."

The EU is imploding because of weakness in Eastern Europe, the Baltic States, and Southern Europe. Of course the EU and the Euro will not disintegrate immediately. It is possible to envisage one of the 17 nations in the Euro zone pulling out of the common currency eventually, but countries like Greece will not withdraw immediately. However, European economies which have expanded consistently after the Second World War have now entered a phase whereby they will stop and even retreat. Measures to temporarily assist economies in strife do exist, but I believe the present situation in Europe is defined by the fact that there are no appropriate policies to deal with this inevitable halt in expansion.

THE ONLY WAY FORWARD IS FINANCIAL RECONSTRUCTION.

The only way forward is financial reconstruction. However, such reconstruction is not likely to create short-term financial growth and could even have a large negative immediate impact on growth. This means that it is unfortunately impossible for Europe's economy to emerge in the short term. As I noted before, the structure of Europe is itself problematic, and imbalances across national economies within the EU will pose many huge problems in the mid-term.

As for the United States, I want to again stress that its balance sheet problems are particularly large as a result of the financial bubble and the aftermath of its collapse. The United States avoided a great depression, but financial institutions are still in considerable pain. Public investment is starting to return, but questions remain around real estate finance institutions and state banks. The situation has not returned to the pre-crisis status quo. Also, consumer debt is considerably large, inflated in the last decade or so. This will obviously be a problem for employment, as going forward there is little possibility that American consumption will recover strongly. I feel that these conditions will prolong the pain caused by the burst of the bubble.

The American economy is currently entering a phase of recovery. However, I think it is still fragile, and the capacity for recovery is small. Both Europe and America have structural problems, and therefore the whole world economy is taking a strange turn.

But here in Japan, we do not really feel like we are in recession. Until this summer, Japan's recovery was perceived as relatively strong because the data from July to September was not particularly negative. Our revisions and upward adjustments for October to December were based on these preceding months and were therefore too optimistic. They will probably have to be revised downwards, but there is not yet much of a mood of recession in Japan. Unfortunately next year Japan's economic performance will probably decline. I think it is highly likely that Japan will enter the second half of a double dip recession by next summer.

That is to say that developed nations will enter into recession one by one, and one by one they will engage in quantitative easing. This will lead to currency wars because the lowering of a particular nation's currency value normally encourages greater exports from that nation. A move by the U.S. Federal Reserve, the European Central Bank and the Bank of Japan to lower the value of their currencies in order to stimulate their national and, in the case of Europe, regional economies will lead to competitive devaluation. This is only slightly different to what happened in the 1930s. On the other hand, because of this devaluation, investment from developed nations will flow into nations like China, India, and those of Southeast Asia, where they will create a new economic bubble.

The transition to an Asia-centric economy

I do not think structural recession in the developed nations will ease soon. I am afraid the world is entering into a long-term period of structural transition. China will probably rank number one in the world in terms of its gross domestic product (GDP) sometime between 2035 or 2050, and there is the possibility that India will be number two by 2050. The Euro-America centric world economy—which includes Japan as one of the lead players—is making a massive transition to an Asia-centric world economy based once more on China, India and other regional actors. Of course, the transition will take a number of decades, but the world economy is in that transitional phase now.

The transition is not so strange, if we consider longer span of history. China has largely been the greatest economic power, with India coming second, for most of the four millennia of recorded history. In 1820 the British economist Angus Maddison estimated the size of global GDP and found that China accounted for 29 percent and India for 16 percent. That means that until the beginning of the 19th century China and India accounted for almost half of the world's GDP. In the middle of that century, however, China and India began to decline.

It was colonization that caused this mid-century decline of the East. India was completely colonized by the British by the 1870s and China, by way of ports like Hong Kong, was colonized in a piecemeal fashion. Thus, colonization by the West resulted in the decline of both nations which lasted from the 19th century to the Second World War. During that time, America and Europe were at the center of the global economy.

However, the period of Asian decline and the rise of the West only lasted for 150 years at the most, a fragment of time in the long run of history. Going forward China and India will continue their trend of economic expansion, with China achieving double-digit growth and India also recently growing 7 to 8 percent. Indian government officials even state that their nation achieved double-digit growth this year. Growth capacity in India is extremely high. In the immediate to mid-term period, there will be a Chinese and Indian reemergence, a word I use purposefully. China and India are not emerging countries, they are *reemerging* countries. These two nations are returning to the center of the world economy.

CHINA AND INDIA ARE NOT EMERGING COUNTRIES, THEY ARE *REEMERGING* COUNTRIES.

However, large transitional phases throw the global economy into turmoil. For example, the Great Depression of the 1930s can be considered a transitional period marking the decline of Europe and the rise of the United States. Europe was exhausted after the Franco-Prussian and First World Wars. In 1917 the German philosopher and historian Oswald Spengler wrote in his book, *The Decline of the West*, that Europe would collapse. In fact, Europe had already collapsed with the First World War, and it was subsequently devastated by the Second. In the process, the United States began to grow greatly as an emerging economic power, and the recession of the 1930s coincided with a huge shift of the economic center of gravity.

We must consider these shifts in units of time that last for decades, but if there is a transition of the economic center from the West to the East, it will engender a fair amount of economic chaos, such as the structural recession we are seeing now in the developed economies. Because this is a structural recession, it is not possible to recover simply by implementing stimulatory policy. Developed nations have structural problems to which fiscal policy or monetary policy, or whatever policy tools we in the field of macroeconomics develop, do not necessarily apply.

YOU CANNOT SIMPLY LOOK AT ONE SIDE OF THE BALANCE SHEET.

Of course, Chinese and Indian GDP will continue to grow for foreseeable future. China's GDP may finally overtake Japan's this year. But, China and India will not overtake the United States and Europe immediately. It will perhaps be 20 or 25 years before this happens, and the transition has already begun. I apologize for my pessimism, but I therefore believe that the global economic recession will continue for the next three or four years, if not the next seven or eight, depending on the circumstances.

The advantage of domestic debt

Because Japan is also caught up in this recession, we as Japanese have to consider exactly how we should cope with it. Japan's economy and finances are deeply in the red and our outstanding debt is equivalent to 180 percent of GDP, the highest ratio among the developed nations. The conventional thinking is therefore that Japan has no room to expand its finances beyond what is already available.

Such thinking is totally erroneous. You cannot simply look at one side of the balance sheet. In Japan, household financial assets are valued at 1,400 trillion yen (U.S. $16.9 trillion). Even if you consider net financial assets, we have 1,100 trillion yen ($13.3 trillion). Government debt may well be 900 trillion yen ($10.9 trillion), but we still have these net household assets, so on balance Japan is still the largest creditor nation in the developed world. It is because Japan is the largest creditor nation that enables it to continue to issue a large amount of government bonds. Next year, when the economy worsens, Japan should issue a large amount of government bonds in order to provide economic stimulus.

Economists and politicians need to acknowledge that there is enough room in Japan to adopt such a policy. They need to acknowledge, for example, that some 95 percent of Japanese government bonds are owned by the Japanese people. Ten-year bonds yield about 1.1 or 1.2 percent interest, and for a while they were down to 0.8 or 0.9 percent. They are the lowest interest-yielding bonds in the developed word. That's why Japan is in a position where it can stimulate the economy by initiating a mass circulation of bonds. At the very least we have the leeway to implement such stimulatory measures, and I think it will need to be done in the next year. Fiscal reconstruction has become a global issue. But we need to look objectively at both sides of the balance sheet. Of course, Greece will probably need financial reorganization. But Japan's budget deficit is in fact probably more manageable than even America's.

JAPAN HAS BECOME A MATURE NATION. THE GROWTH STAGE IS OVER.

So the message I want to convey here is actually one of optimism about Japan's finances. In other words, Japan can finance itself. It has a large pool of assets and Japanese savings patterns are extremely conservative in that they mostly gravitate towards bank savings or insurance. Because asset management by Japanese institutional investors is also extremely conservative and heavily concentrated on national bonds, the nation's debt is financed domestically and it is therefore not a large problem. We should not look on the Japanese economy with a sense of pessimism. Indeed, I think the tendency to refer to economic and financial problems elsewhere as "Japanization" is particularly inappropriate.

The merits of maturity

To an extent, Japan has become a mature nation. The growth stage is over. Because growth of 4 or 5 percent is now impossible, we should not act as though we want to achieve it. In contrast to the United States, growth at a level of 1 percent is enough for Japan. As we know, the population in the United States continues to expand, because America constitutes an extremely dynamic economic environment and is inherently an immigrant nation. Therefore, while the United States is the world's most developed country, some of its demographic patterns resemble those of developing nations. Japan is totally different. Its population is declining. We are maturing demographically.

But maturity is not necessarily bad. There is enough about Japan's national character that make it a pleasant place for a maturing society to live. For example, Japan's environmental beauty rivals any nation in the world. Sixty-five percent of the land area is forest. There is no nation where the water is cleaner. We are blessed with verdant topography and ample rainfall. In addition we have the most delicious food in the world. Whether it is fish or other foodstuffs, Japan, rich as it is in forest and ocean resources, rivals any other place on earth. It is an extremely bountiful nation.

It is also a secure nation. Throughout the span of its long pre-modern history, Japan only ever fought three foreign wars, managing to maintain long periods of stability. Because of this, Japan is extremely peaceful and the Japanese have an amicable national character. Our cities are safe. Young women can feel safe walking home at night, even in Tokyo. This is unthinkable in New York, London, or Paris. But Japan is truly a safe country. It always has been this way. For example, around the time of the Meiji Restoration[1] the British travel writer Isabella Bird spent three months travelling solo around the Tōhoku region in northeastern Honshu. She wrote in her notebook that it gave her such pleasure as a woman to travel completely alone, that the people she met were kind, and that she was totally safe. She wrote that if she had taken such a trip in Britain, she would have been attacked within the space of two weeks. Nothing much has changed since that time. Japan is still an extremely safe nation with friendly people. We should be proud of that.

We should also be proud of the fact that we are the healthiest nation in the world. Japan has the world's highest life expectancy. That probably has something to do with the food. We do not indulge so much in hamburgers or fried chicken. We are extremely healthy. Of course, there is always obesity, but Japan's obesity rate, at about 3 percent, is among the lowest in the world. America stands at 31 percent. It is clear that Americans eat too much fast food. One might think that a nation of gourmets like France might suffer from high rates of obesity, but this is not the case. In France and Italy, at around 9 percent, these rates are lower than one might expect. Although I do not want to speak ill of the United States, these nations, like Japan, have a "slow food" culture.

This is all to say that Japan's high level of development, as well as its slow growth, is a reflection of its maturity, and there is nothing wrong with that. We do not have to consistently talk about economic activity or growth rates. It is important to mention that we take pride in the merits that this maturity affords us. This may well be the future path of all developed nations. As I said before, it is the United States that is currently the exception, not Japan. The developed nations in Europe and Japan will tread a different path to America, and we should have more confidence and emphasize the fact that we live in great countries. Even if we ask Mizuho Fukushima—the leader of Japan's Social Democratic Party who is often critical of Japan's national choices—whether she would rather live in America or Japan, she would no doubt answer "Japan." Japan is better because it is more comfortable to live here. Certainly we have some problems expressing ourselves, but we are in an extremely fortuitous situation and we live in a lucky country. It is time to recognize that we are world class.

WE DO NOT HAVE TO CONSISTENTLY TALK ABOUT ECONOMIC ACTIVITY OR GROWTH RATES.

In that sense, Japan and the United States are quite different. America is an extremely dynamic country. It always has growth potential. However, it is a nation that does not necessarily evince a feeling of maturity. America's status as a young, dynamic nation, however, is not a national fault. Indeed, it means that Japan and America are different but complementary. We can cooperate and learn from one another in a number of different ways.

However, Japan must remember that its merits lie in its maturity. After the Meiji Period, Japan was forever chasing Europe and the United States, but it has entered a new phase in the 21st century. For that reason, it is important that the Japanese people be more confident and transmit that confidence to the world. Today I spoke in Japanese but it would be fantastic if the Japanese people could learn a bit more English in order to communicate to the world how great their country is and that they can weather this financial crisis on their own mature terms.

NOTES

1. The Meiji restoration refers to the events leading to the end of the Shogunate (or "military" government) and the restoration of nominal Imperial rule in Japan in 1868. It is usually seen as the onset of Japan's period of modernization. The reign of Emperor Mutsuhito (1868-1912), known posthumously as the Meiji Emperor, is referred to as the Meiji Period.

CONFERENCE AGENDA

DECEMBER 8, 2010

OPENING REMARKS

JUNKO CHANO, *executive director, Sasakawa Peace Foundation*

KEYNOTE SPEECHES:

"Learning from Japan: Ben Bernanke and the U.S. response to the financial crisis"

DAVID WESSEL, *economics editor for the Wall Street Journal*

"Japan's Place in the Global Financial Crisis"

EISUKE SAKAKIBARA, *Japan's former vice minister of finance for international affairs*

PANEL DIALOGUE

Discussants:

DAVID WESSEL

EISUKE SAKAKIBARA

Moderator:

KEISUKE IIDA, *professor of law and politics, University of Tokyo*

DECEMBER 9, 2010

OPENING REMARKS

JUNKO CHANO, *executive director, Sasakawa Peace Foundation*

PANEL 1:

The Future of the Dollar-based Financial System, and the Post-crisis Role of the United States and Japan

Panelists

ANDREW SORKIN, *chief mergers and acquisitions reporter, columnist, assistant editor of business and finance news, the New York Times*

KOICHI HORI, *chairman and representative director, Dream Incubator, Inc.*
PAUL BLUSTEIN, *non-resident fellow, Brookings Institution*
MASAYUKI TADOKORO, *professor of international relations, Keio University*

Moderator:
YOSHIKO KOJO, *professor of international relations, University of Tokyo*

PANEL 2:
The Future of Global Governance and the U.S.-Japan Relationship

Panelists:
OSAMU TANAKA, *special researcher, the Japan-China Organization for Business, Academia & Government Partnership*
CHRISTOPHER MCNALLY, *fellow, East-West Center*
MOTOSHI SUZUKI, *professor of government, Kyoto University*
KENT HUGHES, *director, Program on America and the Global Economy (PAGE), Woodrow Wilson International Center for Scholars*

Moderator:
KEISUKE IIDA, *professor of law and politics, University of Tokyo*

CLOSING REMARKS
ROBERT HATHAWAY, *director, Asia Program, Woodrow Wilson International Center for Scholars*

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