Columbia Business School

Center on Japanese Economy and Business

日本経済経営研究所

The New Post-Recession Paradigm

February 11, 2010

Speakers

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Symposium Summary Report

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On February 11, 2010, the Japan Society presented a panel discussion titled "The New Post-Recession Paradigm," co-sponsored by Columbia Business School's Center on Japanese Economy and Business (CJEB). The panelists were Susan Jansen, head of U.S. credit research at Nomura Securities International; her colleague David Resler, chief economist at Nomura; and Alicia Ogawa, a senior advisor at CJEB and Adjunct Associate Professor at Columbia's School of International and Public Affairs. About 150 people attended the discussion, which was moderated by Leslie Norton, the Asia foreign editor of *Barron's*, at the Japan Society in New York City. This report is a summary of the discussion.

In just over a year, new regimes have swept into power in both the United States and Japan, with financial industry regulatory reform playing a key role in the two countries. The panelists shared their views on the shape of regulatory reform, what it means for business, and the role of politics in the creation of new rules.

Global economic conditions are improving, albeit more slowly in mature markets hampered by high unemployment than in Asia's emerging markets. China, however, is withdrawing liquidity, so it is an open question whether this pace of growth is sustainable in 2010.

In her opening remarks, Leslie Norton quoted Bill Gross of PIMCO (Pacific Investment Management Company). "Now that the credit bubble has burst and economies have grown dependent on stimulus spending," he said, "The Republican orthodoxy of lowering taxes is broken. The Keynesian orthodoxy of government spending is broken. What we really need is some new orthodoxy."

Rating the Leaders

Leslie Norton: What grade do you give U.S. President Barack Obama for his first year and Japan Prime Minister Yukio Hatoyama for his first half year in office?

Alicia Ogawa said Mr. Hatoyama gets a grade of mostly absent. Other names in his administration—such as Naoto Kan and Ichiro Ozawa—appear ten times in the newspaper for every one time the prime minister is mentioned. This leaves the impression that Mr. Hatoyama is letting others around him work out problems. Although his voice is heard when talking about security issues, he has been largely silent with regard to financial policies. Japan's 1990s banking crisis has been stabilized, but there has not been real reform to change the behavior of Japanese banks that led to the crisis.

Susan Jansen said Mr. Obama has largely failed to be a friend to business, although he was very supportive of the U.S. Treasury and the U.S. Federal Reserve when it was needed most—when liquidity was needed to enter the system very, very quickly in order to keep capital markets from freezing. Still, current talk of placing taxes on financial institutions that have largely repaid all of their loans is pure populism. She wondered whether it would be more equitable to distribute such a tax across other ailing areas such as auto companies and Fannie Mae and Freddie Mac.

David Resler said he has been puzzled by Mr. Obama since he took office. Although Mr. Obama supported the financial markets while campaigning, after assuming office he turned his agenda over to two fairly unpopular leaders in Congress, Representative Nancy Pelosi and Senator Harry Reid, to formulate the details.

This mistake cost him support on health care reform, Mr. Resler said. The health care bills from the House and the Senate at the end of December bore little resemblance to the issues he campaigned on. Along the way Mr. Obama managed to offend virtually everyone who had any interest in serious health care reform. He did not, as promised, embrace and try to bring into the debate bipartisan involvement. The outcome of this mistake was reflected a couple of weeks ago with Republican wins in the Massachusetts election and earlier ones in New Jersey and Virginia.

Mr. Resler said Mr. Obama's failure to fulfill his promise and his squandering of a big lead earns him a "C," although in fairness any president after one year should get an incomplete. Much has yet to be done, and certainly all is not lost. The Massachusetts election is likely to be a wakeup call for his administration about the kinds of things it needs to do to engage the Republicans again as well as to win back the support of the American public.

The Global Financial Forecast

Ms. Norton: What is your opinion regarding global financial conditions for the rest of the year? There has been a lot of turbulence in parts of Europe and Ireland over the past week. Will the trouble there be confined to Europe, or will it spread?

Mr. Resler said that one lesson learned from the crisis is that no one can be complacent in the face of turmoil anywhere in the world. Financial contagion is a reality, and it's very easy to see how a seemingly minor problem in a narrow segment spread and became a worldwide financial catastrophe. This raises questions for the stability of the financial system. Still, he added, the global economy is again on more solid footing. Most economies are once more growing, and while it hasn't lasted long enough to be a full-blown recovery, it is encouraging. The big surprise has been the strength of the U.S. manufacturing sector, for which the United States owes a debt of gratitude to the much stronger economies in Asia, particularly outside Japan.

Ms. Jansen noted that, within the United States, not only is the manufacturing sector improving, but a handful of consumer sectors seem to be strengthening as well. She cited strong year-over-year retail sales and cruise line bookings. While this surprise is encouraging, the recovery is extremely fragile. She compared the situation to a survivor of a severe heart attack in 2008 who was put on medication and began to feel better, but now the drugs have to be withdrawn. There are plenty of areas like the commercial real estate sector that are in great difficulty, she added, and contagion makes it clear there is no part of the world that is not connected.

Ms. Ogawa said there are few signs of recovery in Japan's economy, still one of the largest in the world. The Bank of Japan is predicting two more years of deflation, although at the same time it says deflation is intolerable. The population is declining, and the percent of the working age population that is employed is the lowest on record. She noted that since Japan has experienced deflation, low growth, or recession for so long, it's really difficult to see what will spark an increase in domestic demand. A 30-year-old Japanese person making career choices has never seen interest rates or the stock market go up in his or her adult life. Sociologically, that is an important study waiting to be done.

She noted that, unlike most countries, which have problems because they are connected and vulnerable, Japan's problem is that it is not connected with other economies. It will soon be forced to be connected with global capital markets because of the government's financing need relative to the size of domestic savings available to buy new government bonds. The enormous Japanese government bond (JGB) market is 95 percent owned by domestic investors—retail and institutional—and government institutions. The small percentage of foreigners who have dabbled in the JGB market have often lost much of their investment due to developments that they could not predict. They therefore do not have the appetite for taking up JGBs, particularly at these rates. The low rates on JGBs have persisted even as the budget deficit has exploded. The total government deficit on a gross basis is more than 200 percent of GDP, which is far worse than any of the PIGS (Portugal, Ireland, Greece, Spain) countries, and even on a net basis is way above 100 percent of GDP.

Ms. Ogawa said that, with the current bond market and its trillions of yen that are left to be refinanced, and the new bond issues that have to be undertaken to support current social programs, the problem is who is going to buy. Households in Japan, directly and indirectly, own 51 percent of JGB issues through their bank accounts or their pension funds. But as the population ages and shrinks, these households can be expected to draw on their savings to finance consumption. The issue is not default risk, but rather the risk of significant interest rate volatility.

Ms. Ogawa added that it is unclear where the demand for JGBs is going to come from next. If foreigners step in, they will demand much higher interest rates, and it would be very interesting and difficult to see how the JGB market reacts.

Recovery Predictions

Ms. Norton: What kind of recovery can there be in the United States, given the debt crisis? Japan's experience has suggested that a deflation will thwart recovery. Is this what the United States has to look forward to?

Mr. Resler said he did not think the U.S. situation would be quite as dire as that seen by Japan over the last decade and a half, because the U.S. monetary policy has been quite different. Nomura's chief economists have been traveling and studying the issue and have created an intriguing chart that shows the response of monetary policy authorities in the United States, Europe, and Japan. There is a striking dissimilarity between the U.S. and European central bank response and that of Japan to the recent crisis.

Mr. Resler said that, within the U.S. and European central banks, officials take the option of quantitative easing seriously when interest rates are at very low levels. This policy has helped stabilize the economy and put the United States back on a positive growth trajectory. Japan, which faced very similar circumstances and is 10 to 15 years into their crisis, has had very limited quantitative easing.

Mr. Resler added that the U.S. recovery would be very different from what is expected after a very deep recession. Households are going to be reducing indebtedness because household debt levels are unsustainably high. In addition, consumer spending will grow a lot less rapidly than it typically does in the early stages of recovery. The United States will have to derive an atypical share of its growth from exports and from capital spending.

Mr. Resler said the good news is that the outlook is brighter than he believed a few months ago. The strength of the Chinese and other non-Japan Asian economies is likely to be pulling exports from not only the rest of Asia, but also from the United States and Europe, providing a lift to the global economy. As it does so, U.S. businesses will simply need to invest more in plants and equipment in order to meet that demand. While consumer spending is not going to be the engine of growth for the global economy that it has been for most of the last 20 years, the U.S. economy will probably grow at or above its potential for the foreseeable future. That will lead to a gradual decline in the unemployment rate, and inflation will remain benevolently low, as will short-term interest rates.

Ms. Jansen said she agreed with Mr. Resler. She noted that the largest share of the U.S. corporate market is sitting on an astounding amount of cash—about $1.2 trillion, according to the cash on hand figures on balance sheets for the majority of S&P companies. That capital probably will get deployed at some point when businesses become optimistic about demand. There has been underspending on technology for the past couple of years and that will probably change this year.

She added that, as of the most recent quarterly earnings release, about 88 percent of the S&P 500 has actually beaten expectations, versus about 60 percent at this time last year. Because corporations themselves have low expectations of growth rates and are sitting on a lot of cash, she agreed it probably would not be the U.S. consumer who would kick-start spending.

Ms. Ogawa noted that this was one similarity between the United States and Japan. Companies have reported better net earnings, even though sales have been lower, by cutting expenses—largely jobs and salaries. In the case of Japan, this has gone on for a decade, with the result that there has been no growth in salaries or wages and a record high unemployment rate. Yet even with these earnings, companies refuse to go out and hire more workers or pay higher bonuses and salaries. This has been going on for nearly ten years, so it is a structural problem, and Ms. Ogawa expressed hope that the United States could avoid similar problems.

New Financial Architecture

Ms. Norton: Ms. Jansen referred to a global bank tax earlier. Are the U.S. and Japanese governments going too far, or not far enough, in terms of proposed reforms? Which initiatives do you think are the most important?

Ms. Jansen said that comprehensive regulation of financial markets and consumer protection is a hot topic and is very debatable. The idea is to provide government tools and enhance intergovernmental cooperation across the globe. These proposals have merit, but they're going to have a huge impact on businesses as rules and regulations get promulgated. Huge amounts of additional reporting burdens can make companies nervous, especially in terms of cost. However, history has shown that the costs can end up being relatively minimal and everyone can benefit from more transparency.

Ms. Ogawa said she sees the proposed tax as a response to a structural problem still to be addressed, which is that some financial companies are still thought of as too big or too important to fail. The consequence is that their cost of capital is artificially low. Instead, they should pay the cost of capital commensurate with their true risk profile. This would solve the issue of compensation structures because the companies can only compensate employees with what is left over after paying to raise capital.

Japan hasn't shown much initiative on this issue because its whole market is still very much bank dominated, Ms. Ogawa added. The financial system in Japan is not flexible enough to support fund-raising for new ventures. She said the CEO of a large Japanese bank operating in the United States told her he has managed to trade his loan portfolio from high risk to better risk as liquidity has come back into the market, noting that this could not have happened in Japan. She would like to see the Japanese capital markets become much more flexible, developed, deep, and much less reliant on banks.

Mr. Resler said the crisis has opened up weaknesses in the financial system that regulators missed and that legislators around the world want to fix. The problem is that the regulators didn't know enough to spot them, and the legislators don't know how to fix them. It is exacerbated by appealing to populist sentiment derived from an ill-defined public interest.

He pointed to historical evidence that the recent financial problems were caused by poor regulation in the past. He included the failure for at least 15 years to rein in Fannie Mae and Freddie Mac. Legislators instructed those institutions to essentially create subprime loans to create housing opportunities for the disadvantaged. The Garn–St. Germain Depository Institutions Act of 1982, which increased deposit insurance from $40,000 to $100,000, was another factor. This legislation created the thrift crisis of the 1990s, which gave rise to the creation of mortgage-backed securities. The Sarbanes-Oxley Act of 2002, in turn, was created as a response to the failures of Enron and WorldCom, and is a worthless piece of legislation.

Mr. Resler said that, in reregulating something as complex as the financial markets, it is easy to define the rough outlines of what ought to be done. However, it is another matter altogether to do so in an effective manner. While he is confident that some kind of financial reform will pass this year, he is not hopeful because he is almost certain it will be ineffective.

Question-and-Answer Period

Question: What propositions does the financial sector have for improving the regulatory situation?

Mr. Resler said many people in the financial sector believe that, as bad as things are, increasing regulation is likely to make it worse. Still, reforms are needed. If the proposed bank fees were used to create a new resolution authority to resolve financial institution failures that are not covered by the FDIC, instead of merely to recapture TARP investments, it would be a step in the right direction.

The issue isn't that institutions are too big to fail; it is that they are too complex and interconnected. Furthermore, creditors should be responsible for bearing the losses and be more attentive to the balance sheets of their counterparties.

Ms. Ogawa agreed that there could be positive regulation, which could be helpful in terms of standards for when global bankruptcies need to be resolved. The fact is that financial institutions fail and cause trouble and will do so every number of years. There are only three approaches to take when this happens: inject capital, set up an asset management company to sell off bad assets, or steepen the yield curve so banks can earn back lost money. The question is, who pays for the bank rescues, and through what format?

Ms. Jansen said the movement for greater transparency in the derivatives market, by having derivatives cleared over exchanges, is getting support from the industry. With transparency one can begin to limit risk. But she agreed that the other challenge is finding regulation that fits across different players in the markets, from hedge funds to regional S&Ls.

Ms. Ogawa said she was skeptical greater transparency would make a difference. When the exposure of AIG in the credit default swaps market was disclosed, no one raised questions about what was known about Fannie Mae and Freddie Mac. She said political will and investor responsibility must be developed, in addition to greater transparency.

Question: Can reforms truly regulate human behavior and the desire for risky, high-yield markets, or should financial institutions control their own level of exposure and risk because there will always be people who take big risks?

Ms. Ogawa said Wall Street is adept at meeting the demand for great risk and reward. Once someone is earning 32 percent a year, then that becomes the standard everyone else wants to meet, and banks are going to create complex, risky products to deliver that kind of yield. She added that some of the top Fortune 500 companies are still basing their pension liabilities on the expected yield of 9 percent. So the Treasury could regulate by saying that, for an endowment or pension fund, X percent over Treasury yields is deemed risky.

Ms. Jansen said she did not want the Treasury telling private endowments what they had to achieve or not in terms of earnings. But she acknowledged that the return of the high-risk triple-C index was stunning in the face of some very high default rates, although the default rate has been falling dramatically. Still, she said, the bottom line is that letting people invest in risk is what a market is all about.

Question: What is the status of a plan a few years ago by Japan's Junichiro Koizumi, then prime minister, to privatize the largest savings bank in the world in ten years, and its impact so far?

Ms. Ogawa said much of the privatization of Japan Post, which had overseen one of the world's largest savings systems, is being unwound, in spirit or in law. The privatizations that have already occurred, such as the Development Bank of Japan, are also now being put on hold. In the Bank's case, it was privatized as far as stripping staff of their government employee status and benefits; however, the government has since decided to maintain 100 percent ownership and to essentially run the Bank. As a result, the situation is very confusing, Ms. Ogawa said. Initially the reversals in privatization of the Post Office were read as a gambit to make sure a captive audience was there to continue to buy JGBs. But then Shizuka Kamei, the Financial Services minister, said the returns on these assets were too low and that they should look outside Japan to invest. It's difficult to know who is in charge in the ruling Democratic Party of Japan.

Question: Since the people who have been running our banks, hedge funds, and financial industry, including Congress, have been incompetent, shouldn't we toss them out?

Ms. Ogawa agreed with respect to Congress, but not regarding Fed chief Ben Bernanke, whom she praised, and Treasury head Timothy Geithner, a "committed public servant who has done a good job saving us from the abyss."

Ms. Jansen said the American people get what they vote for, and the same is true of shareholders. But when the government gets involved as an owner, that's when it is time to worry. The banks want to repay government bailout money as quickly as possible so they can be out from under an owner who restricts compensation.

新政治体制下における今後の世界経済の展望

2010 年 2 月 11 日

ジャパン・ソサエティとコロンビア大学ビジネス・スクール日本経済経営研究所（CJEB）の共催により、「新政治体制下における今後の世界経済の展望」と題するパネルディスカッションが、2010年2月11日にニューヨークのジャパン・ソサエティにおいて開催された。パネリストには、米国野村證券マネージング・ディレクターであるスーザン・ジャンセン氏、同マネージング・ディレクター兼チーフ・エコノミストであるデイビッド・レスラー氏、CJEBシニアアドバイザー兼コロンビア大学国際関係・公共政策大学院非常勤准教授である小川アリシアを迎えた。バロンズ誌アジア外信部長のレスリー・ノートン氏が司会進行を務め、約150名の参加者が集まった。

昨年、米国と日本でそれぞれ国民の大きな支持を得て新政権が成立したが、そのなかで金融業界の規制改革は両国において重要な役割を果たした。パネリストは、規制改革の在り方やビジネスにとってのその意義、また政治が新しいルールづくりに果たす役割について、意見を述べた。高い失業率が足枷となり、成熟した市場では景気回復のペースがアジアの新興市場よりも遅いとはいえ、世界経済は好転しつつある。

パネリストは、オバマ大統領と鳩山首相各々の実績について評価を行った。オバマ大統領に対する見方は、支持率の高さが政策実行に生かされておらず、党を超えた対話を行うという公約を果たしていないというもの。またオバマ大統領は、医療保険制度改革といった重要政策課題の詳細を不人気な部下に任せたままにしており、それが最近のマサチューセッツ、ニュージャージー、バージニアでの選挙における支持低下につながった可能性もあるとの批判が出た。

鳩山首相については、金融政策の決定にほとんど参画していないとの見解が下された。安全保障問題については自らの考えを主張しているものの、銀行制度改革やその他の金融関連政策については、鳩山首相は比較的静観の構えを示している。

パネリストは、世界金融危機の再発を防止するために何らかの改革は必要であると認めつつも、米国で議論されているような銀行税の導入や報酬体系に対する制限といった方法は、改革を行うには不適切とした。これらの改革案はポピュリズムに迎合するものであり、根本的な問題解決につながらないとの指摘がなされた。

加えて、複雑な金融ツールの透明性を増すことにより、リスクの制限を促し、ひいては危機回避の一助とはなるが、それ単独では不十分との指摘もなされた。より強固な政治的意思と投資家責任の拡大も、同様に必要である。

現在欧州の数カ国が直面しているように、他の経済国家の財政問題が世界の景気回復に水を差す恐れは依然としてある。しかし米国では、製造業や小売、クルーズ旅行の予約状況までもを含むいくつかの業界において、予想以上の活況を呈してきており、経済展望は慎重ながらも楽観的である。とはいえ、商業不動産などのセクターはいまだに厳しい状況である。

家計の債務がいまだに高レベルにあるため、これまでの不況とは異なり、米国消費者が支出によって経済を牽引する可能性は低い。その代わりに、製造と、特にアジアをはじめとする海外市場からの米国製品需要が、景気の回復を促すことが考えられる。また米国企業は潤沢なキャッシュを保持しており、それが経済回復を刺激することも期待される。

日本は、依然としてデフレ局面にある。企業収益は伸びたが、それも賃金を据え置き給与を低く抑えることで達成されたものである。日本国債市場は、国内需要が減少すると見られるため、新たな買い手を探す必要がある。また、数年前に始まった民営化への取り組みも、巻き戻しの状態にある。1990年代の金融危機を招いた日本の経済政策の不備は、その後も完全には是正されていない。

米国と日本の危機には類似点もあるが、それぞれの中央銀行の対応は異なっていた。米国では、金利が極めて低いレベルとなると、量的緩和が一つの選択肢として真剣に検討された。こういった政策が米国経済の安定化を促し、回復軌道へと導いた。日本では、類似の状況下にあったときに量的緩和が導入されたのは危機から10～15年も経てからであり、それはお世辞にも良いとは言えない方策であった。

さらに、日本と米国における最近の金融問題は、過去の規制上の不備に緒を発しているものである。金融市場のように複雑なものの規制見直しを進めるにあたり、何がなされるべきか、その概要を定義するのは容易である。しかしそれを効果的に行うことは、全く別の問題である。

同様に、どのような規制や政策が導入されても、ハイリターンを求めてハイリスクを取る向きは必ず存在する。そこで問題となるのは、今次の世界金融危機を経た後、投資家のリスク性向が再び高まった際に、政府や金融機関にそのリスクを限定する責任があるかどうかという点であろう。

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