

“Trump’s Economic Policies and Their Implications for Japan and Asia”

November 21, 2017

The Italian Academy

*Cosponsored by the Center on Japanese Economy and Business, Columbia Business School
and the NHK (Japan Broadcasting Corporation)*



From left to right: Takatoshi Ito, Glenn Hubbard, Hugh T. Patrick, Joseph E. Stiglitz, and David E. Weinstein

On November 21, 2017, the Center on Japanese Economy and Business (CJEB) at the Columbia Business School and NHK, Japan’s national public broadcasting organization, co-hosted a symposium on President Donald Trump’s economic policies and their implications for Japan and Asia. The symposium brought together four distinguished economists at Columbia University who have been deeply immersed in public policy and who continue to actively influence decision making regarding global and domestic economic policy. The panelists featured at the symposium were Professor Glenn Hubbard, the Dean of the Columbia University Graduate School of Business and the Russell L. Carson Professor of Finance and Economics; Professor

Joseph E. Stiglitz, recipient of the Nobel Prize in Economics and University Professor, Columbia University; Professor David E. Weinstein, the Director of Research at CJEB and the Carl S. Shoup Professor of the Japanese Economy at Columbia University; and Professor Takatoshi Ito, director of the Program on Public Pension and Sovereign Funds at the CJEB and professor at the Columbia University School of International and Public Affairs.



Hugh T. Patrick and Glenn Hubbard

In his opening remarks, Hugh Patrick, director of CJEB, noted the increased relevance of the symposium as it followed President Trump's twelve-day visit to Asia in early November, during which President Trump received a warm welcome from state leaders in the region. He then invited each of the panelists to share their views on his thoughts on President Trump's economic policies in a two-minute opening statement.

Dean Hubbard observed that the confluence of two major factors enabled the rise of President Trump. First, a large portion of the American population was concerned about whether mass prosperity would remain possible and a goal of the United States. Second, there was increased uncertainty related to the slowing of U.S. economic growth. Although the general, pervasive belief among the business community in the ability of the U.S. economy to continually grow made Dean Hubbard optimistic about the economic outlook for the United States under the Trump administration, he also noted that he was concerned about international trade and the fact that President Trump has demonstrated little interest in supporting the blue-collar workers who elected him.



Glenn Hubbard and Joseph E. Stiglitz

Professor Joseph Stiglitz remarked that President Trump's ineffectiveness in implementing some of the radical policy agendas that were expressed during the course of the presidential campaign in 2016 is something we should all be grateful for. He then emphasized, however, that President Trump has already done a great deal of damage. From Professor Stiglitz's

perspective, states have striven for the past 75 years to create a world in which borders matter less, but it appears that President Trump is seeking to reverse this. With regard to how Japan and Asia ought to respond to President Trump and his policies, Professor Stiglitz stated that it was most important for Japan and Asia to not normalize Trump and, simultaneously, to work to strengthen the global economic system in the long run in spite of President Trump's efforts to undermine this system.

Professor David Weinstein remarked that President Trump's economic policies and presidency have been marked so far by the retreat of the United States from the international stage as well as a dramatic rise in uncertainty. Regarding retrenchment, Professor Weinstein commented that it would only be a matter of time before Asian tariffs begin to discriminate against U.S. products as a result of the United States pulling back from international trade agreements such as the Trans-Pacific Partnership (TPP). Additionally, the high-level of uncertainty among experts concerns him because it may prompt investments to slow as individuals and firms wait for greater clarity in political situations.

Professor Takatoshi Ito focused his comments on the impact of President Trump's economic policies on Japan. Professor Ito remarked that Japan is concerned about a bilateral trade policy between the United States and Japan because the United States will likely demand more concessions from Japan than it requested in the TPP. Professor Ito also noted that if the United States runs more fiscal deficits, defined as the total expenditures of a government exceeding its

revenues, the U.S. trade deficit will also increase, resulting in a twin deficit (a fiscal deficit and a trade deficit) problem reminiscent of President Reagan’s economic policy. A third issue for concern that Professor Ito raised was the potential overvaluation of the U.S. dollar.



The panel then convened for discussion with Professor Patrick moderating. In terms of evaluating President Trump’s decision to withdraw from the TPP, Professor Stiglitz explained the necessity of understanding the three main topics addressed by the TPP and analyzing the U.S.’s action in this context. With regard to the first part of the TPP, which concerns goods and services, Professor Stiglitz noted that the most optimistic estimate of the benefits in goods and services to the U.S. economy as a result of the TPP would be approximately 0.15% growth after 15 years, indicating that the TPP would have virtually no impact on the growth of the U.S. economy. The clauses in the TPP concerning intellectual property were also designed mostly to advance U.S. corporate interests and would have raised pharmaceutical prices, made it more difficult for small businesses to secure intellectual property rights, and would also have made access to life-saving drugs more difficult. Additionally, Professor Stiglitz observed that the TPP also gave foreign investors more rights than domestic investors. Thus, from his perspective, although President Trump may have withdrawn from the TPP for other reasons, the fact that the U.S. is not currently part of this trade agreement is not necessarily bad. Professor Ito responded by observing that a number of the controversial clauses of the TPP have been removed by Japan in pursuing TPP-11.

Dean Hubbard countered that the main goal of the TPP was to essentially preserve the primacy of the United States on the world stage and to prevent China from taking the lead. He believes that the U.S. has, unfortunately, walked away from a strategic opportunity to achieve this goal. He is also concerned about the United States withdrawing from the Paris Agreement.

Additionally, Professor Weinstein commented that the unilateral action of the United States creates a global perception that America is pursuing an “America-first” policy and is no longer interested in contributing to global solutions. Consequently, Professor Weinstein believes that the formation of a trade agreement that includes 11 major states will have negative



consequences in the form of the diversion of trade away from the U.S. Professor Stiglitz concurred; ultimately, the world must decide if it is going to proceed in a rules-based system without the United States and this predicament in itself has made the United States a loser in this scenario.

More generally, Professor Stiglitz commented that the domestic tax policy advocated by President Trump directly contradict the outcomes the president seeks to achieve by moving away from multilateral trade agreements. Trade has been viewed as an important cause of the plight of unskilled American workers who have been left behind by advancements in technology. While American workers have suffered from wage stagnation, with the median income of a full-time male worker in America remaining at the same level as it was 42 years ago after adjustments for inflation, Professor Stiglitz highlighted that tax cuts will only increase the trade deficit, causing exchange rates to adjust, and causing further adversity for unskilled American workers.

With regard to President Trump’s policies on energy, Dean Hubbard and Professor Stiglitz both agreed that the United States cannot possibly revive the coal industry and increase jobs in this sector. Professor Stiglitz noted that the United States has created as many jobs in the renewable energy sector as have been lost in the coal mining industry and that therefore it would be more realistic to focus on job creation in the renewable energy sector.



Turning to the current state of the Japanese economy, Professor Patrick asked for the perspectives of the panelists on economic growth, as well as Japan’s labor shortage and aging population. All professors expressed optimism with regard to the structural

reforms that Japanese Prime Minister Shinzo Abe is currently pursuing. Professor Weinstein identified “womenomics” as one of Prime Minister Abe’s most important reforms. The central tenet of womenomics is to increase the representation of women in Japanese corporations and government in order to raise the overall productivity and efficiency of the economy. Professor Ito added that the participation of women in the labor force in Japan has already reached a level on par with the United States and increasing opportunities open to women supports economic growth. Delaying the retirement age and adopting new types of technology would also increase the size of the labor force and per capita productivity in Japan. Professor Weinstein commented that the challenge of increasing employment opportunities open to women in Japan is similar what the United States faces. He emphasized the importance of human resources departments in reexamining whether their procedures are fair and reconsidering how promotions are currently being conducted. Dean Hubbard added that the boards of corporations have the potential to play an enormous role in increasing the pipeline of women into Japanese firms and that foreign female executives on the boards may be needed to accelerate this transition. Professor Stiglitz also noted the importance of firms providing

sufficient family leave and daycare benefits in order to support the recruitment and career advancement of women in firms.

On the topic of a bilateral free trade agreement between the U.S. and Japan, Professor Stiglitz believes such an agreement is unlikely to happen, based on the terms that President Trump demanded with regard to the North American Free Trade Agreement (NAFTA).

Professor Hubbard stated that business relations could perhaps be

more important than government relations when it comes to trade. He cited the very strong economic business relationship between U.S. and Japan and suggested that the example of Kikkoman investing in the heartland of America and supporting American farmers as an example of how corporations in Japan could directly benefit the American people. Perhaps, he suggested, agreements like this could assuage the concerns of unskilled workers related to international trade.



David E. Weinstein and Takatoshi Ito

In examining the future of the world economy, the panelists named the declining leadership role of the United States as one of the most important developments to monitor. Professor Stiglitz claims that the global economy has “accelerated the creation of a multipolar system”, despite the fact that the U.S. played a major role in shaping the global economy and global rules-based system to start. Although there are costs to the U.S. federal government withdrawing too much from this global system, Professor Stiglitz hopes that other elements of society in the U.S. will step forward and be more engaged. Professor Patrick raised the concerns that have been expressed regarding the slowing of economic growth in developed economies. However, Dean Hubbard reaffirmed optimism regarding future growth, noting that there is not yet evidence that suggests that further productivity growth is not possible. Furthermore, many

business leaders believe that developed economies are currently at the interior of a productivity frontier. Professor Hubbard's concern lies primarily in whether government policies will support this potential economic growth.

The discussion touched on the crisis in North Korea. President Trump has continued to pursue economic sanctions as a means of pushing North Korea to cooperate with the international community.



However, Professor Weinstein warned that the U.S. embargo of oil to Japan was one factor that led to the Second World War and, thus, the U.S. should remain cautious with regard to the use of sanctions today. Professor Ito surfaced a provision of the Japanese constitution in which Japan is obligated to support the United States in collective self-defense. Essentially, Japan is constitutionally obligated to support the United States whether or not the United States decides to go to war with North Korea.

Professor Patrick then opened up the panel to a Q&A from the audience. Questions were raised regarding the low inflation rate in the United States and Japan, the economic damage done by President Trump thus far with regard to the perception of the U.S. as a world leader and the possibility for reversal, policies that could potentially support low-skilled workers, and also the large public debt to GDP ratio in Japan. Regarding the role of the U.S. on the world stage, Dean Hubbard underscored the importance of the United States addressing its domestic problem of unskilled workers. Until the issue is resolved, Dean Hubbard does not believe it is possible for the political tide that enabled President Trump's ascension to the presidency to shift and for the United States to be a world leader. Professor Weinstein and Professor Ito agreed, observing that having less divisive societies worldwide are key and that the United States and Europe need to improve public safety nets. Professor Ito and Dean Hubbard diverged on the potential

of income transfers in supporting low-skilled workers. While Professor Ito cited the successful example of income transfers in decreasing the income gap in Japan, Professor Hubbard believed that income transfers would actually deprive low-skilled workers of future opportunities. From the perspective of Professor Hubbard, the best solution for supporting low-skilled workers would be to prepare them for the jobs of the future.



Joseph E. Stiglitz and David E. Weinstein

concerned about public debt impeding economic growth in Japan because the Japanese government has demonstrated the ability to rein in spending. He compared the healthcare expenditures of the U.S. government and the Japanese government as an example and added that the United States should be paying more attention to expenditure line items.

The symposium concluded with a discussion on the impact of public debt to GDP ratios on economic growth. With regard to Japan, Professor Ito remarked that the young people in Japan should be concerned about budget deficits because debt is continually piling up for them to repay in the future. Professor

Weinstein remarked that he is less