

Summary of the Panel Discussion at **The Inaugural Symposium of US – Japan Research Institute**

By US-Japan Research Institute

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Following the two keynote speeches was a panel discussion, followed by Q&A with floor participants.

The panelists included Professor Takatoshi Ito (moderator) of the University of Tokyo, Dr. Edwin Truman of the Peterson Institute for Economics, Professor Hugh Patrick of Columbia University, Professor Yukiko Fukagawa of Waseda University, and Professor Nuoyuki Yoshino of Keio University.

First, Professor Hugh Patrick offered congratulations on the establishment of US-Japan Research Institute. He agreed completely with Professor Ito's analysis on the current financial crisis, and also agreed with Dr. Truman on his presentation. Overall, he is optimistic about the recovery process from the financial crisis. He pointed out that the American policymakers had learned lessons from Japan's financial crisis in the 1990s:

- Diagnose the problems and act early and quickly (Don't delay.)
- Japanese deposits in the 1990s had been fully insured and guaranteed to avoid bank runs.
- The central bank (the Fed) and ministry of finance (the treasury) must coordinate to address a crisis
- Comprehensive and long-run strategies must be developed

Professor Hugh Patrick criticized the Federal Reserve System for keeping the interest too low for too long.

For the Japanese side, some lessons can be learned from the current US crisis: The regulatory agencies, especially FSA, should become independent, and the current structure is good. The FSA is understaffed and needs technological enhancement is needed to oversee the constantly-innovating market. Japan's macroeconomic policy mix was wrong, on focusing too much on the lack of aggregate demand, especially low consumption.

Then, Professor Yukiko Fukagawa of Waseda University, an expert on East Asia region, explained the characteristics of China's budget policy to address the current crisis; an outsourcing networking in East Asia; and growing consumer market. She argued that the cooperation and integration of financial markets are developing in the region. IMF is still not resisted during the current crisis after the unfortunate problem during the 1997-98 crisis. She further discussed regionalism in Asia. She emphasized the Chinese currency Yuan internalization, as China has struck deals with various partners, including ASEAN (The Association of South East Asian Nations, "ASEAN"), Hong Kong. Perhaps an arrangement with South Korea will be next in the near future. ASEAN + 3 (Japan, South Korea and China) platform has been strengthened. There are negotiations following the APEC (the Asia-Pacific Economic Cooperation) forum, but no concrete results have been obtained. As hosting member of APEC in 2010, Japan is expected to explore the cooperation in the fields of capital flow, logistics, among other issues. Japan and the United States, the host in 2011, can cooperate in these fields to push concrete advances in these issues.

Next came Professor Naoyuki Yoshino of Keio University on his presentation with lots of economic data. He talked about Japan's macroeconomic policies with an emphasis on bank loans of Japan and America. He also compared the real estate loans in Japan, China and (South) Korea. He argues that Chinese government keeps land price at high level to collect more taxes on real estate. Chinese banks do not possess many stocks, and therefore have not suffered big losses in the current financial crisis.

Then he introduced his studies on the impact of public works on Japanese economy. According to his study, government spending on public works in the 1990s did not contribute to growth of the economy; although, from 1960s to 1980s, effective public works contributed to the Japanese economy. But the decline of effectiveness started in 1990-94.

He pointed effective public works, like the highways in the 1960s, and 1970s, helped increase tax revenues during these years. Public works also improved efficiency. Professor Yoshino cautioned the public finance implications of the aging population in Japan. By 2050 there is only half of the population are workforce. An obvious solution is postponement of the retirement age. As for the recovery, he suggested an increase of private sector investment and government spending. The growing number of retired people needs to be mobilized too.

The panel took questions from the participants, followed by presentation of two more professors on the Institute's research activities.

One question was about APEC, which the participant said “is making a comeback”. Professor Yukiko Fukagawa of Waseda University mentioned that Japan, as the host country of APEC of 2010, will focus on the issues of financial transactions, flows and logistics, within the APEC framework, which had already produced some free trade agreements between member countries in the region.

Another audience inquired the causes of the financial crisis. Dr. Truman pointed two different views: One is too much monetary ease, and low interest rate; the other, regulatory failure.

Dr. Truman also praised the G20’s agreement to cooperate to tackle the crisis. It would be easier to solve the problems if all countries in the world to move in one direction.

Professor Ito agreed that G20 has become a permanent body to discuss the global financial issues. The G20 includes emerging economic powers like China, India and Brazil. They are skillful to use the G20 occasions to assert their own views in the global stage.

Regarding the evidence that US and Japan have learned from each other, Professor Ito said that Federal Reserve had published many papers that studied the Japanese financial crisis in the 1990s. Professor Patrick mentioned that US government officials, particularly members of the US Congress should increase their knowledge of the outside world..

The inaugural symposium of the USJI adjourned after Q&A between the audience and the panelists.