DEBATE

Richard COOPER

Thank you very much, so you have heard wide-ranging presentations. The world economy is a big topic. We have not covered all of the issues, but you have an excellent panel here that is capable of covering almost all issues, and so let me open it for questions.

Meir SHEETRIT

Thank you. I am Meir Sheetrit from Israel. I would like to raise the question of debt which Mr Derviş spoke about. The fact that the current situation of interest is so low, sometimes even negative, pushes people to invest their money or even take loans in order to buy stock market, because it is going up. What is your expectation for the future of the stock market? Because I am afraid that if it falls, it would not only be the fall of the stocks, but it would be the fall of big debt, and create a big crisis, even bigger than 2008. I would like to know what you think about the future.

Richard COOPER

Okay, let me collect several questions, and then we will turn to the panel. Mr Johnston?

Donald JOHNSTON

Thank you very much. I have got two quick questions, first to Kemal Derviş. His comments reminded me – I think back to the solo paradox of the late 1980s, when it was argued that there are computers everywhere, but it is not being reflected in productivity, and I am wondering if there is an analogy to be drawn there, and also you, Professor Cooper, because I remember reading and using a lot of the work you did on stagnant wages, which also started during that same period, so I am just wondering if there is not an analogy to be drawn? We experienced then what we are experiencing now. I do not know, so I am just asking the question.

The second on is the question of these trade deficits and protectionism in the United States. President Trump and his team, including Ross and Lighthizer, seem to focus almost exclusively on currency manipulation and so on. Now, is this fair? You have got a $356bn deficit – I think it is – with China, and these numbers, I think there are about four major ones that jump out, Germany, China, Japan, I think Mexico, but South Korea comes after, and Canada, who are actually lower – but I am wondering, is this correct? Should they not be focusing more on American consumption habits, on investment? Because it seems exclusively, at that level, to be focused on currency manipulation and unfair trade practices.

Richard COOPER

Let us collect a couple more. Yes, there.

Salim DEHMEJ

I am Salim Dehmej, a researcher from the Central Bank of Morocco. I would like to thank you for the quality of your presentations. I have a remark from the Fiscal Monitor of the IMF, which is inequality. We learned from this last edition that, if inequality did decline between countries, it was widening within countries, and here, I want to ask you, do you share the recommendation to enhance the tax progressivity, and also, if you can recommend this proposition of enhancing investment in education and health, because it is an ex-ante treatment, and there is also taxation, which is an ex-post treatment. Thank you.

Richard COOPER

Any further – yes, right here.

Tatsuo MASUDA

Thank you very much. Tatsuo Masuda from NUCB Business School in Japan. I have a question to Former Minister Kemal Derviş. Hearing all these great stories, and together with current fashionable talk about industry, fourth industrial revolution, I fear social divide or economic divide. Companies, individuals who can ride on all these quick changes can take advantage of those, but companies, individuals who are left behind could have no chance of taking advantage of these. The result could be a social economic divide within communities, within the country, within the region. How do you foresee the risks of this divide expanding, or shrinking? Thank you.

Richard COOPER

Okay, let me turn to the panel, and solicit responses, and then I will go back to the audience. Kemal, a few were addressed to you. Why not start with you?

Kemal DERVIŞ

Well, I totally agree, and in fact, that was one of the key points of my quick presentation, that inequality is a major issue, and the past trends which have made intra-societies very unequal, although between countries, because of the growth of developing countries, global inequality may not have increased. It may have even decreased, but inequality inside the countries is increasing everywhere, and one of the reasons – not the only reason, but one of them – is that firms which are doing well are doing better, and those who are not doing so well are doing even less well than before, so today it matters a lot which firm you work in. Education also matters of course, and your health systems and so on, but there is a concentration of power and wealth, and productivity growth in a small number of firms – many of them global firms – whereas a lot of other firms are being left in the dust. This will create social problems of the magnitude we are seeing happening all over the world, so I think that the inequality side of the equation, in looking at the world economy, has to be strongly underlined.

Now, the question on asset prices – because of the low wage growth, low inflation, I do not see any major push towards any rapid tightening of monetary policy, so I think asset prices may perhaps have overshot, but I do not see a major collapse of asset prices in the global economy. I think income distribution, and the social consequences of income distribution is a much more serious problem than the asset price problem, and I do congratulate the IMF for having taken on this problem. In the old days, it was just a footnote in an IMF report, but today, the IMF is actually addressing this issue as a major overall macroeconomic and microeconomic issue, which gives me some hope that policies will be addressed.

One final thing, I think it is in line of President Macron's policy also. You have to attack the problem before transfers and taxes. Transfers and taxes can correct things, but if the primary distribution is very unequal, it is very difficult to make it more equal with transfers and taxes, so the real issues are competition entry, small enterprise access to credit, education, health coverage, and things of that sort. Taxes and transfers are important, but if you do not solve these problems, you will not be successful in reducing inequality.

Richard COOPER

Thank you. Others want to comment? Uri?

Uri DADUSH

Yes, so just a follow-up. Obviously, Kemal and I agree on these issues, particularly on the inequality question. I just have a couple of elaborations. One is the wage stagnation. It is very important when coupled with inequality, but there is a big difference between advanced and developing countries. The developing countries that are growing fast are seeing wages rise even as inequality gets worse, so at least people feel – even the people who are losing out, so to speak, in relative terms – are gaining in absolute terms, and that is very, very important for social cohesion. The problem in the United States – particularly in the United States, but it is also true in other countries – is that you have a combination of wage stagnation and wage declines for some parts of the population, like white males, at the same time as you have rising inequality, so that is very important.

The second is on education. Yes, of course I believe in the importance of education. Education as a cure for inequality, we have to be very careful, because it depends where the money for the education goes. In the United States, there is a superb educational system, but in many respects, it has also been an disequalising educational system, with huge differences in quality between the very top and what is available at the base, which has to do with the way a lot of high school and elementary education is financed at the local level in the United States. Education, yes, but it has to be targeted. One point also quickly on asset prices, Mr Sheetrit's point. Historically, a big adjustment in the stock market by itself has not actually induced – typically has not resulted – we have had many examples of very large adjustments in the stock price which have had relatively minimal effects on the real economy, and I agree with Kemal that the adjustment to date has been gradual. If you see inflation pick up in the course of about a year from now or so, then I think we should be worrying more.

Final point is: insofar as a lot of the stock market purchasing is done by private institutions, people can take risk. Even individuals who can take risks, there is only so much that they will allow you to borrow, a margin, for example, I can tell you from personal experience. Then, I think the effect is less. It is when you have very highly leveraged institutions, like the banks, that are taking all sorts of risks, which could include the stock market, but typically does not, that you can get a major financial cataclysm.

Richard COOPER

Professor Itoh?

Itoh MOTOSHIGE

I have a comment about the relation between technological development and economic growth. Someone just mentioned the Solow paradox where we can see any of the results of the technological advantage to the macroeconomic growth, but if you were to read, for example, the study by Robert Gordon, he just showed there is some kind of increase of productivity between 1990 to 2000, so there was some kind of effect on productivity. Maybe technological development is not slowing down, it just has continued, and there is a very important theory. As I already mentioned, there is a big time-lag between the timing of the technological introduction and its effects on the economy, because the industry structure has to respond to absorb the result of the technological progress. Now, just remember this about major technological development, which we often discussed today: the deep learning of AI or the expansion of the Internet of Things just happened in the last five years maybe, so we have to be very patient to wait for the results of the technology to be reflected in the macro-economy.

I also just want to give a very brief comment on the bilateral trade deficit surplus with the United States and the exchange rate. I just want to say that this is not the first time. Japan has suffered a lot of these discussions in the 1980s and 1990s, so when the trade issue became very serious, the United States has always mentioned the trade deficit and the exchange rate, and because this is very dangerous, but at the same time we have to be very patient to negotiate and discuss the issue, so I think the trade issue is very important, but I am not very pessimistic at this moment.

Richard COOPER

I might comment on the last point. I will make a strong statement which may not be true, it needs to be tested. I do not think our new president, Donald Trump, is a protectionist. For reasons that I find obscure, he has a particular animus against countries that have big surpluses with the US. China, Germany, Canada has even been added to the list, Mexico and so forth, but I do not think he is intrinsically protectionist. There are two ways to eliminate a bilateral surplus, which is the wrong objective to focus on, but seems to be in his mind. One is to restrict imports, and the other is to raise exports. I think Trump would be happy with either, probably, preferably to raise exports. He has appointed some people who are protectionists. But I consider a major question mark in the Trump administration whether he is a protectionist or not. He has talked around it, and he has so far taken no actions, apart from abandoning TPP, and even in the renegotiation of NAFTA, the guidelines which were published – remember, this is a 25-year-old agreement – were perfectly reasonable, in terms of bringing it up to date. They were drawn, ironically, from much of the TPP negotiation.

Now, I have been around long enough to know that with trade negotiations, they are not done until they are done. But we have to wait to see what is going to come out of these negotiations. It is certainly a source of uncertainty, and the tone is very different from previous American administrations, so that is of concern, but I would not write him off yet as a protectionist, and as leading the world down the road of protectionism.

Qiao YIDE

Let me answer the question regarding the low interest rate, which reminds me of one very interesting and important speech made by Stanley Fischer in July. The speech was specifically targeting the low interest rate; he identified the reason behind the low interest rate. I recall he mentioned a couple of things; first of all, the aging population. The population is becoming older and older, which creates a very soft demand. That is first reason. The second is that the technological advance also created some income inequality. I can recall the situation when Facebook got IPO. It's market value was equivalent to GM, but Facebook only hired 7,000 employees, while GM hired 250,000 workers. You can see the asset concentrated among fewer people. That also created some low demand. Here, I want to add one factor that not many people mention, because I recall that before the global financial crisis, [inaudible]The world economy ran well, so-called great moderation. That means at that time, growth rate was good in advanced countries while there wasa low inflation rate. The one reason behind that is that at the end of 70's of the last century, China started to take an open-door policy. 10 years later, India fillowed that. Also at that time, the Soviet Union collapsed. Almost 2bn people more or less gathered into global integration, which created demand for advanced countries. Now, these dividends have been reduced or disappeared. I guess that is a very important factor.

Then I will answer the question regarding the trade deficit. The reasons of trade deficit of the US arevery complicated, but one factor we should not forget is that the US had a trade deficit with 100 countries, not only with China and Germany. Yes, China and Germany occupy a larger share, but the US has a trade deficit with more than 100 countries, so yes, I do not deny there is some room for the US to negotiate some deal with some countries, which could reduce the deficit, but another factor is that we should understand the difference between savings and investments equals the difference between exports and imports. That means the savings rate in the US relative to investment is very low. That means the investments needed in the US in some ways created the trade deficit. That is something we should look at comprehensively, not only focusing on the trade deficit. That is my point of view.

Richard COOPER

I would like – sorry, Mr Jung?

JUNG Sung-Chun

I would like to add just one comment about the trade imbalance between the US and South Korea. The key word is aging population. We examined the relationship between trade imbalance and population aging. The two variables have very strong relations, so the Korean society is experiencing very, very rapid aging problems, as they say, so I think in 10 or 20 years, maybe the Korean economy will suffer from a kind of trade deficit, because of the aging issues. Thank you.

Richard COOPER

I would like to make one further comment about the trade issue. It is another identity. Qiao drew our attention to the identity between trade surplus or deficit, and excess savings over investment. Another identity is that for every trade deficit – I am using trade in the comprehensive way, including services – there is a capital account surplus, and think about that for a minute. If we want to reduce the US trade deficit significantly, which Trump says he does, it means also reducing the US capital account surplus by an equivalent amount, apart from measurement errors, and that means less foreign investment in the United States. The US has an enormous amount of net foreign investment in the US. Some of this goes into US corporate bonds and US government bonds. A lot of it goes into equities, including the very companies we are talking about; Facebook, Google and so forth, and one way of putting it, which economists have not absorbed yet in my judgement, is that the US has a comparative advantage in producing new firms, and the new firms are – if they succeed of course, many of them do not – but if they succeed, they are attractive around the world, not just in the United States, and as long as this process continues, there is going to be a net capital inflow into the United States. With a floating exchange rate, ergo a trade deficit.

Now, I do not know if any of Trump's advisors have pointed out to him that eliminating the trade deficit means eliminating the net capital inflow into the United States. We have enough time for one question, I see from the clock up there. Anyone?

Jeffrey FRIEDEN

Jeff Frieden from Harvard. For Uri and Kemal, I am a little puzzled by your view on the debt issue. It seems to me that the question is not whether nominal interest rates are low, it is what the relationship is between the growth and debt and asset prices. The fact that interest rates are low or in arrears is irrelevant to the asset liability mix. The fact that interest rates are low in fact means that the Central Banks may have lost a lot of the bullets in their arsenal, so can you say a little bit more about why you think this is not a problem?

Then the second question, for Kemal, I am a little confused about your notion that we should focus as a policy variable on pre-tax, pre-transfer income distribution. That is a 40-year process. Reversing it is probably a 20-year process. It seems to me that if the problem is income distribution, saying what we should focus on is pre-tax, pre-transfer is a formula for not being able to do anything in the short and medium run.

Uri DADUSH

I am not sure I actually understood the first question.

Kemal DERVIŞ

I do believe it is very important to focus on the pre-tax and transfer distribution issues, and what creates it. For example, monopolies are an issue here. Pre-tax, pre-transfer. If you put all the burden of correcting the maldistribution of income, or the very unequal income distribution on taxes and transfers, you run into tremendous political problems, and also inefficiencies in the whole system of taxes and transfers, so I do believe that real wage growth, competition, productivity growth that is more widely shared, these are things that will create a healthier income distribution. I am not saying we should not work on taxes and transfers, but I do not think I want to put the whole burden of correction on taxes and transfers, and I think this is really a very crucial point, because in Europe for example, you already have 50, 55% of GDP-worth of expenditures by the government. I mean, how can you reach 70% without creating major inefficiencies? On the other hand, if you democratise the production process, and allow small firms to do well, allow easier entry, put barriers up to monopoly profits and monopolies, you can do all these things with much less inefficiency than via just taxes and transfers.

The other question – I do not know, Uri, do you want to answer?

Uri DADUSH

I am not sure I understood it, honestly. Can you repeat the question, Jeff?

Richard COOPER

No, no. We are going to have a discussion over dinner in which Jeff can clarify his question. I am going to bring this session to a close, and it just remains to me, I hope on behalf of all of you, to thank our panellists very much for a very interesting conversation**.**