

DEBAT

Jeffry FRIEDEN

What I would like to do now is, I have seen a few people who would like to get into this conversation.

Donald JOHNSTON

I have three points I would like to ask you about. One is, Trump might learn. It is hard to believe that Trump might learn, but remember Arthur Vandenberg, who was the Senator for Michigan who was a staunch protectionist before the war and finally ended-up when he saw the advantages to the United States, for example that the Marshall Plan would bring by having a strong united Europe rebuilt. He voted for it, he represented at the UN and made a very famous speech of contrition in 1945. That is a possibility. I would like to hear comments on that, because the fact is, 20 years ago we were all talking trade not aid. We all thought that the developing world, the poor countries would be brought in through the WTO process, which I think Trump would like now to dismantle. He is an America first guy, who seems to believe it is better to be an eight-hundred-pound gorilla in the ring with one other smaller gorilla, which is why he likes bilateral agreements. Even with NAFTA, think of what he did there. He separated Canada and Mexico in the negotiations, which was an example of his strategy, he went to Mexico first and then went back to Canada. That is one issue I have that I would like your view on.

Kemal Dervis made a point about the technology and this is extremely important, but for the United States. I am reading every day almost about our lack of skill bases in the United States in engineering and sciences. There are 350 000 students from China studying in the United States and Trump was even considering stopping their visas, because he thinks they are stealing ideas back again. However, there is a dearth of skills in many of our Western countries.

Finally, just one other point about the thing that you have to have the United States. I think the Europeans have a big role to play here. If you can get the European Customs Union to really act with one voice, it is the largest market there has ever been and I do not think that is impossible. I think that the threat of Trumpism might actually bring that about, so you would have another gorilla. Does anybody agree with that, or disagree with it?

Jeffry FRIEDEN

I think the first question is, let us broad it out a bit, can Trump learn, is the way you put it I think, but the broader question is can American policy change under the current administration? Marc, I would like to hear your thoughts on this, or anyone else, but Marc in particular since you have thought about this.

Marcus NOLAND

Honestly, I do not think so. This is one of the few things he seems to actually believe. If I were to say that there could be possibility of change, the way I would put it is this, Donald Trump got elected President without ever holding public office and without ever running an organisation with more than 300 people. Therefore, he was uniquely ill-suited to be President of the United States. We have a system, which I am not defending, just saying that this is the way it works, in which the President of the United States appoints about 3 000 political appointees. The Trump administration was very slow to get off the mark in terms of making those appointments and getting them confirmed. Normal American administrations take six months to a year, to kind of shakeout because you have people who worked on the campaign, people who worked on the transition and people who are now getting appointed. They have their own ideas, agendas and personal ambitions, so everyone is kind of scrambling and there is a kind of winnowing process where ideas get discarded, individuals get discarded and the government kind of converges on a line. This Trump administration has been very slow to do that, so you could say there is still an unusually high level of internal disagreement and the upshot of these internal disagreements could be shifts in policy or shifts in personnel that would then manifest in shifts of policy towards a more constructive direction. However, personally I am quite sceptical that that will happen.

Jeffry FRIEDEN

Other thoughts, either on Trump's evolution or not, or on the technological and European issues?

Kemal DERVIS

I do not think that the Trump administration can ever change, or President Trump can change. That is a different statement from the US changing. I think the young people in the US, the cities, the more dynamic parts of the country are all ready for change. However, I do believe and again, it is repeating it for the third time, but I think it is really important, that the productive sphere is changing. What is a monopoly is changing, but it is not in the direction of a more equal income distribution, a more equitable kind of society, and that is partly why Trump won. I think that what needs to be addressed is not just the multilateralism or relationship with China, but what really needs to be addressed is how humanity is going to manage these new technologies. Here again, in the end I think, I am not American born, the US will take the lead.

Jeffry FRIEDEN

Thoughts? Go ahead.

II SAKONG

Not on Trump. I think the economic consequences of so-called Trumpism may start to affect ordinary people sooner than many people expect and that may affect the Trump policy to some extent. After this midterm election, I do not know what the outcome will be, but Trump will have to make an effort if he is interested in running for a second term. Therefore, the economics may drive the policy changes, hopefully. As Marc pointed out, I do not think there will be very significant changes, given socio-political dynamics existing in the US and all over the world. That is why I am more concerned about a Kindleberger Trap type of situation, where there is not enough leadership, not enough global public goods provided. What that means is that at each individual country level, particularly in the emerging world, will have to make extraordinary efforts in terms of educational reform, strengthening social safety nets, etc. I think that educational reform is the main thing and that again, is very difficult and that again has a lot to do with the income distribution for the future as well. You rightly mentioned that China, of course, East Asia as a whole benefitted the most from the post-World War Two liberal economic order, so Asian countries including China, should be ready to share the burden of providing public goods. It is not just providing international leadership as such, but I think opening-up your own market and implementing new structural adjustment, is one way of sharing the burden for the global good.

Jeffry FRIEDEN

Yide, yes. It is a challenge.

QIAO Yide

CSIS in Washington DC had a seminar, I guess a couple of weeks ago, inviting all the formal representatives of the US TR to share their ideas. The moderator asked the first question. He said, I do not criticise current policy, I am just asking do you think these tendencies will continue to go on, or do you think it is just temporary? I saw two or three, several of them say they did not know. I think of the same question many times and I think it depends at which level. On some issues, I do not think the Trump administration would change. There are some ideas that he held 30 years ago, very much longer and he still sticks to them. However, on some issues he may change his mind, particularly maybe, at the end of next year or 2020, if the US economy is suffering, I do not think he will continue to rule everything out. He may want to do something, he may want to negotiate with China. That is my answer.

Jeffry FRIEDEN

Certainly, whatever the goals of the administration or of Trump himself may be, facing difficulties on the domestic economic or political front, or technological change, or internationally, could force a change in government policy. There is no question about that.

I want to move to what I think will be our last question, since we need to move to the second panel.

Philippe CHALMIN

My question will be quite easy, not to answer, but to present. Are we ready and can we cope with the next financial crisis? In 2008, we had a crisis coming from the US and the sub-prime problem, but it was fairly easy to just have a recession and not a depression with old Keynesian policies; you lower your interest rates and you float the economy with liquidities and quantitative easing, etc. Just right now, we have a huge problem of debt. Our public deficits in many countries are fairly high: 4% in the States. If we had a new financial crisis coming from where, I do not know, perhaps student loans in the States, or something else, could we cope with a financial crisis, which would be not only perhaps a recession, but eventually a depression?

Jeffry FRIEDEN

I think that is an extraordinarily important and good question. I would disagree with the notion that it was easy to confront the crisis in 2008-2009. I think that many of us were surprised at how successful the cooperation was and expected things to go much worse. I suppose we can turn again to the panel and ask if we are in fact prepared for whatever the next crisis may look like, which we do not know.

Kemal DERVIS

I think, as one says very often, crises never quite look the same as they were in the past. The high level of debt per se I do not think is too worrisome; what is worrisome is the composition of debt and who owes how much to whom. I believe that in the near future at least, we will not have another edition of the 2008 crisis. We will have some other crisis that we may not foresee right now, but I think the financial sector has learned, also for its own benefit of course, it does some of the same things again. However, I do not think we will get a reedition of the 2008 crisis. Total debt, one has to remember, it is always debt from somebody to somebody, so it all depends on who owes what to whom.

Marcus NOLAND

I think that the questioner correctly identifies the problem, that we have very low interest rates and a lot of debt, so we do not have a lot of space to respond, although I would defer to others who know more about that than I do. In terms of this session, what I think is really striking to me is that we are getting this level of political polarisation and populism under relatively good macroeconomic circumstances. If we were to get a financial crisis in the United States or other big countries and there was really a significant downturn, one hates to think about how that might manifest politically. If anything, the last few years have made me reassess my beliefs about human nature. Views appear to be much more fluid than I would have expected. It is incredible to see polling data in the United States that now shows a large majority of Republican affiliated voters regard Vladimir Putin, a former KGB colonel, as a good guy. Trump is so polarising that the support for free trade, despite what I said at the beginning, is now higher among Democrat affiliated votes than it is among Republicans.

Jeffry FRIEDEN

Twice as high.

Marcus NOLAND

I think we are in a truly dangerous situation and the interaction of that degree of political polarisation and fluidity with a real financial crisis, could be very, very dangerous indeed.

II SAKONG

After the 2008 global financial crisis, we all know that financial institutions, banks are better capitalised and are sounder now. That does not mean that a future crisis will not happen. As I alluded to during my initial remarks, I think there is more likelihood of having a financial crisis, small or big, already happening in some countries now, in the next

two or three years, not five years. To prevent that or help to remedy the situation, I think this international cooperation is again very important, theoretically, but whether it will happen is a different issue. However, we have to make an effort and for example, very simple, a swap arrangement. I have always said that a swap arrangement is the least costly, because the bigger the arrangement, bilateral or multilateral, the lower probability of utilising it. It is a costless insurance. This kind of arrangement can be done among central banks and so there are ways of dealing with the possible crisis.

Jeffry FRIEDEN

Yide, many people point to Chinese financial conditions, as one of the more worrisome components of the international scene. Where do things look like from your perspective?

QIAO Yide

I guess, after all the breakout of global financial crises, the international community has already been lost, for example, setup a G20 FSB global financial safety net, at the centre However, we still have to identify which way or when the financial crisis will break out. What concerns me is that it might not happen to one single fact, but some overlapping facts. For example, if in 2020 the US economy is going down at the same time as the Chinese, that will create a very dangerous situation and a financial crisis will break out. Also, if the escalation in the trade war between the US and China cannot be resolved soon, it will drag on the whole global economy. That is an overlapping factor that will provide some environment for the occurrence of a financial crisis.

Jeffry FRIEDEN

That is undoubtedly true. I saw dozens of hands up, but I am very sorry that we cannot take anymore questions, because we do need to move on to our second session. I will point out, that this is only the first plenary session of the day and there are other sessions coming up, as well side sessions, one of which I should promote because it is on finance, specifically for those of you interested in these issues. We do need to move on. We will take a very short break to transfer the four on the panel to the next four. Thank you all for your participation and we will move on.