SYMPOSIUM ON BUILDING THE FINANCIAL SYSTEM OF THE 21ST CENTURY: AN AGENDA FOR JAPAN AND THE UNITED STATES

The Prince Hotel Karuizawa West
OCTOBER 28-30, 2016

DRAFT AGENDA (As of October 17)

FRIDAY, OCTOBER 28

6:00-6:50 p.m. **RECEPTION** Chikuma Banquet Hall

6:50-7:00 p.m. **GREETINGS** Chikuma Banquet Hall

- Yasushi Akashi, Chairman, International House of Japan
- Hal Scott, Nomura Professor of International Financial Systems, Harvard Law School

7:00-8:00 p.m. **KEYNOTE ADDRESSES** Chikuma Banquet Hall

- Nathan Sheets, Undersecretary for International Affairs, U.S. Department of the Treasury
- Masatsugu Asakawa, Vice Minister of Finance for International Affairs, Ministry of Finance

Introduced by: Hal Scott, Nomura Professor of International Financial Systems, Harvard Law School

8:00-9:30 p.m. **DINNER** Chikuma Banquet Hall

9:30-10:30 p.m. **AFTER DINNER COCKTAILS** Marron Lounge

SATURDAY, OCTOBER 29

7:15-8:00 a.m. **BREAKFAST BUFFET** Chikuma Banquet Hall

8:10-8:40 a.m. **PANEL SESSION** Asama

Are we heading for another financial meltdown? – from Europe? Emerging markets? China?

- Dan Ryan, Financial Services Advisory Leader, PricewaterhouseCoopers
- Hiroshi Watanabe, President, Institute of International Monetary Affairs (IIMA)

8:40-10:05 a.m. ***SMALL GROUP SESSIONS*** Asama & Nire No Ki Halls

Group	Room	Facilitators	Reporter
1	Asama E	Akira Ariyoshi/Arthur Mitchell	William Grimes
2	Asama F	Akinari Horii/Tony Miller	Akihiro Wani
3	Yamaboshi	Yoshio Okubo/Shigesuki Kashiwagi	Chris Wells
4	Tsutsuji	Toru Otsuka/Paul Speltz	Hamilton Lin
5	Ayame	Taisuke Sasanuma/Mark Siegel	Kyoko Altman
6	Suzuran	Tsuyoshi Oyama/Chris Winship	Alicia Ogawa
7	Sakuraso	Keiko Tashiro/Thierry Porte	Fabiana Fedeli

10:05-10:15 a.m. **REFRESHMENT BREAK** Asama Conference Hall

10:20-10:45 a.m. **P A N E L S E S S I O N** Asama Conference Hall

Effects, limits and consequences of monetary policy actions in the US and Japan

- Robert Feldman, Chief Economist, Morgan Stanley MUFG Securities Co., Ltd.
- Tsutomu Watanabe, Professor, University of Tokyo

10:50-12:15 p.m. **S M A L L G R O U P S E S S I O N S** Asama & Nire No Ki Halls

Group	Room	Facilitators	Reporter
1	Asama E	Akira Ariyoshi/David Asher	William Grimes
2	Asama F	Akinari Horii/Don Kanak	Akihiro Wani
3	Yamaboshi	Yoshio Okubo/Doug Hymas	Chris Wells
4	Tsutsuji	Toru Otsuka/Brian Kelly	Hamilton Lin
5	Ayame	Taisuke Sasanuma/Jesper Koll	Kyoko Altman
6	Suzuran	Tsuyoshi Oyama/Ed Rogers	Alicia Ogawa
7	Sakuraso	Keiko Tashiro/Jim Walsh	Fabiana Fedeli

12:20-1:30 p.m. **L U N C H E O N K E Y N O T E A D D R E S S** Chikuma Banquet Hall

- Nobuchika Mori, Commissioner, Financial Services Agency, Government of Japan

Introduced by: Hiroshi Watanabe, President, Institute of International Monetary Affairs (IIMA)

1:35-3:00 p.m. **PLENARY P A N E L S E S S I O N** Asama Conference Hall

The implications of US Presidential election outcome for US-Japan relations

- Yoshio Okubo, Vice Chairman, Japan Investment Trust Association
- Naoyuki Yoshino, Dean, Asian Development Bank Institute
- Hal Scott, Nomura Professor of International Financial Systems, Harvard Law School
- Satoru Murase, Partner, Morgan, Lewis & Bockius LLP

Moderated by: Kyoko Altman

3:00-6:00 p.m. **F R E E T I M E**

Optional excursion: Campus tour to International School of Asia, Karuizawa (up to 25 people)

3:00-6:00 p.m. **R A P P O R T E U R S M E E T I N G** Shakunage Meeting Room

6:00-6:50 p.m. **R E C E P T I O N** Chikuma Banquet Hall

6:50-7:50 p.m. **K E Y N O T E A D D R E S S E S** Chikuma Banquet Hall

- Takeshi Kunibe, President and CEO, Sumitomo Mitsui Banking Corporation

Introduced by: Akinari Horii, Special Advisor, The Canon Institute for Global Studies

8:00-9:15 p.m. **D I N N E R** Chikuma Banquet Hall

9:30-10:30 p.m. **A F T E R D I N N E R C O C K T A I L S** Marron Lounge

SUNDAY, OCTOBER 30

8:00-8:45 a.m. **BREAKFAST BUFFET** Chikuma Banquet Hall

8:45-10:00 a.m. **PRESENTATION & DISCUSSION** Asama Conference Hall

Are we heading for another financial meltdown? – from Europe? Emerging markets? China?

- Robert Dohner, Deputy Assistant Secretary for International Economic Analysis, & Senior Advisor for Asia United States Department of Treasury
- Kozo Koide, Chief Economist, Asset Management One
- Eric Pan, Director of the Office of International Affairs, Commodity Futures Trading Commission (CFTC)

10:00-10:20 a.m. **REFRESHMENT BREAK** Asama Conference Hall

10:20-11:35 a.m. **PRESENTATION & DISCUSSION** Asama Conference Hall

Effects, limits and consequences of monetary policy actions in the US and Japan

- Takatoshi Ito, Professor, National Graduate Institute for Policy Studies, Columbia University
- William Knottenbelt, Senior Managing Director, International, CME Group
- Hiroshi Okada, Director of the Insurance Business Division, Financial Services Agency (FSA), Japanese Government

11:45a.m -12:45 p.m. **CLOSING LUNCHEON** Chikuma Banquet Hall

2016 Symposium on Building The Financial System of the Twenty-First Century:

An Agenda for Japan and the United States

The nineteenth Japan-U.S. Symposium was held in Karuizawa, Japan, from October 28-30, 2014. Sessions addressed the potential for new financial meltdowns, the effects and limitations of monetary policy, and the implications of the upcoming US Presidential and Congressional elections for US-Japan relations. Participants were generally positive about the current health and stability of Japanese and US banks and other financial institutions. However, they expressed concerns about the intractability of deflation in Japan and other economies, and about the possibility of new financial crises arising as a result of economic or political forces around the world. The upcoming US election was seen as having introduced additional uncertainty into the global economy.

Session 1: Are We Heading for Another Financial Meltdown?

In Session 1, participants discussed the prospect of a new severe financial crisis. Some focused on where such a financial crisis might arise, focusing particularly on Europe and China. Others focused on which institutions or practices might cause a crisis, including banks, shadow banking, capital markets, vulnerabilities in financial technology, or political decisions. Participants also discussed whether financial systems and regulators were better prepared to manage the next crisis than they had been in the previous one.

Crises and Meltdowns

In discussing the likelihood of a new financial meltdown, there was some discussion of the definition of a "meltdown." Participants agreed that financial crises of various sorts tended to arise every few several years, ranging from stock market crashes to bursts of real estate bubbles to failures or one or more major financial institutions to systemic crises in one or more major economies. In general, "meltdown" was used to denote a systemic crisis with cross-border contagion, such as the global financial crisis of 2008-09.

Many participants emphasized that some of the main factors that would determine both the likelihood and severity of crisis and contagion would arise from regulation, much of which (such as Dodd-Frank and Basel III) had been put in place in response to the global financial crisis. On the one hand, they noted that individual banks in major markets were much better capitalized and less exposed to credit and liquidity risk than in the run-up to the 2008 crisis. However, there was some concern about the displacement of risk to financial institutions outside of banking, post-crisis regulation's dampening effects on market liquidity, and the particular challenges for financial institutions and markets created by low-growth and deflationary environments. Another topic of major concern was whether post-crisis regulations (in particular Dodd-Frank) had reduced the ability of regulators and central banks to intervene effectively to stop contagion and to shore up crisis-hit financial systems. In response to the question of, "Are we prepared?" a number of participants expressed skepticism.

Overall, participants felt that a meltdown was unlikely in the near term. Thus, some participants suggested that it was more important to focus on the threats of economies that were "bogged down" by stagnation and overregulation than on the more remote possibility of a meltdown. Nonetheless, it was expected that major financial events would occur in various places over time and that—regardless of whether financial markets or institutions proved to be the source of economic pressures—finance would undoubtedly be the channel of propagation across borders. This made it all the more urgent to continue to build more resilient financial systems.

Potential Geographic Origins

In discussing potential origins for a major financial crisis, participants focused on Europe and China. There was also some discussion of potential financial crises in other emerging markets, but there was general agreement that none of those markets was large enough or systemically important enough to affect the global economy and financial system. Participants were optimistic that Japan and the US were unlikely to be the epicenters of the next major crisis.

Europe

Participants highlighted several concerns about economic, financial, and political conditions in Europe that could lead to a significant financial crisis there, with implications for the world.

One issue highlighted by participants was Europe's weak economic growth prospects. A number of participants identified supply side issues as the core problem of weak growth, and argued that rigid labor markets and overregulation were holding back growth in many European economies. Some focused on other structural factors, such as stagnant population growth. Either way, participants were concerned that weak economic growth and low rates of return could threaten the solvency of banks, insurance companies, and (especially) pension systems. Meanwhile, continuing gaps among Eurozone economies in terms of productivity and savings left open the possibility of renewed balance of payments issues in economies such as Greece and Portugal that could reignite the Eurozone crisis.

Beyond the real economy, a number of participants focused on what they saw as serious problems in European banking systems. First, they expressed concern that many European banks were undercapitalized or holding excessive risk. This was seen to be partly an issue of banking supervision and partly a problem of bank management. A second concern about European banks was what many participants saw as flawed business models, in the form of excessive reliance on traditional spread-based banking services. Given the low (or negative) interest rate environment prevailing throughout Europe, banks that depended on spread to make profits were seen to be very vulnerable—especially if they had miscalculated the riskiness of their portfolios, which seemed plausible given weak rates of return. It was also noted that many European banks lacked geographical diversification as well, making them more vulnerable to local business conditions.

Moreover, participants expressed concern over the abilities of European governments to manage financial crises. With the EU crisis-management institutions not yet fully in place, national governments were on the hook for bank failures. However, several factors made participants skeptical of the ability of some governments to do so. A key one was banking system concentration. The high level of concentration in several economies meant that a failure of a major bank would pose a severe challenge to the local financial system and to the government's ability to manage the failure and the possibility of contagion. Meanwhile, some smaller European economies whose banking systems were dominated by banks from other EU countries, could face credit crunches stemming from a failure of one of those banks.

Finally, some participants highlighted the importance of political risk. Several cautioned that there was no guarantee that Brexit would go smoothly, which could create major problems for financial markets. It was also suggested that rising populism and anti-EU sentiment elsewhere in the EU could mean that Brexit was not just an isolated incident, and upcoming elections in France and elsewhere could see threats to the viability of the EU as an integrated economic and political zone. Disentangling particular economies from various elements of the European enterprise—particularly for Eurozone members—would be painful, complex, and politically charged. While few were willing to predict the dissolution of the EU, many participants saw these political forces as potential fault-lines that could underlie the next European (and perhaps global) financial crisis.

China

There was also considerable discussion of China as the source for the next major crisis. Given China's size and its importance to global growth over the last decade or more, participants agreed that a Chinese economic or financial crisis could have big implications for Japan and the US. Most, however, felt that the effects would most likely be felt through the real economy, as China's financial system was still not deeply interconnected with the global system.

Most of the concerns about a China-based crisis focused on distortions in the domestic economy. In particular, participants expressed concern over a pair of interacting phenomena: growing indebtedness and slowing growth. Many participants expressed great concern about indebtedness, noting that China's domestic debt-to-GDP ratio had grown enormously in recent years. Most of this could be found in industry (particularly state-owned enterprises, or SOEs) or in real estate and construction. Participants noted that industrial SOEs in declining industries were likely to contribute to large stocks of non-performing loans, while crowding out higher-growth firms from the formal financial sector. Meanwhile, several participants sounded the alarm about real estate debt, which they saw as fueling a bubble that was likely to burst.

Problems of indebtedness were not confined to the formal banking sector. Participants pointed to the previous year's dramatic—and debt-driven—stock market run-up and decline as a warning about excessive debt and risk in the Chinese financial system. They also noted that China's capital markets were increasingly integrated with global markets, which could provide a channel for international contagion. Shadow banking was also seen as a potential source of crisis. Lending by non-banks had increased much more quickly than bank lending, and had been directed in particular to real estate. Given the lighter regulation of shadow banking and its sectoral allocation, a number of participants considered it a likely source of China's next NPL crisis, but without the government backstop.

Concerns about the apparent growth of debt and NPLs were compounded by expectations of slowing overall growth. While there was some debate over the potential and likely trajectory of Chinese growth, participants agreed that it had slowed and would likely continued to slow over time as China's reserve pool of labor disappeared and total labor force began to decline. The speed of the slowdown was disputed, however. Some participants anticipated that Chinese authorities would be successful in shifting the growth model from investment-led, export-oriented industrial to domestic demand-led, service-oriented economy, and that this would improve its long-term growth prospects. Others argued that it was far more likely that state-owned banks would continue to lend to struggling SOEs in the industrial sector, contributing to continuing inefficiency and overcapacity. This would both compound the problem of slow growth and add to the stock of non-performing loans in the banking system.

Some participants focused on a different potential origin for financial volatility in China, outside of banking, capital markets, and even established shadow banking (e.g., wealth management products). They noted the rapid expansion of internet finance (fintech) in China, and the problems that had arisen in terms of fraud and losses to users of fintech services. They suggested that major problems could arise in internet finance in the form of lost wealth or disruption of payments systems.

Some participants also raised concerns about the ability of the Chinese authorities to manage risks in the system. One set of concerns had to do with regulation and macroprudential supervision. The difficulty of regulating shadow banking and internet finance meant that risks might be much higher than official figures would suggest. Moreover, several participants noted that lack of transparency and disclosure in capital markets could contribute to a repeat of previous episodes of bubbles and crashes, as seen in 2007 and 2015. However, most participants agreed that China's financial challenges could probably be managed successfully over the medium term, especially since most banks were state-owned and backstopped, and the Chinese government had considerable ability to raise necessary revenue through taxation or borrowing. Over time, the challenge would grow unless the quality of credit provided by banks and other actors improved.

Finally, some participants felt that Chinese politics could enable a crisis to spread beyond China's borders. If the legitimacy of the Party were threatened by a domestic debt crisis or if economic slowdown and failures of industrial firms were to cause large-scale unemployment, these participants argued, it was possible that the authorities would choose to revert to export-led growth by devaluing the RMB. In principle, this could lead to a currency war with major partners.

However, despite the various financial challenges facing China, most participants did not consider a serious, border-crossing crisis to be likely in the near future. And any domestic crisis that did occur was seen as likely not to be transmitted across China's borders through financial channels, although the damage to Chinese demand could have global effects.

Potential Sectoral Origins

Participants also discussed at length the potential sectoral origins of a global financial crisis. These included banks, shadow banking, capital market finance, and financial technology. This discussion did not focus on particular locations, but on sectors and trends that were seen as applicable to developed country markets in general. One participant urged others to "think inside the box" by focusing on fundamental factors including overleverage, easy money, financial innovation, and real estate.

Participants saw banks throughout the developed countries as facing a combination of new and traditional challenges. One of the primary new challenges was surviving in low, zero, or even negative interest rate environments. With low demand for loans, moreover, banks' spreads were made even tighter, rendering it difficult to make money on lending—and for banks operating in troubled economies, defaults and NPLs would only make that problem worse. Another challenge of recent origin was the burden of regulation, including both post-crisis (e.g., Basel III, Dodd-Frank) and know-your-customer (KYC) and anti-money laundering (AML) initiatives. A number of participants argued that these regulations had so increased the costs of compliance that banks were even less capable of making profits through lending. And while capital and liquidity rules were seen as reducing the risks of failure of individual banks, participants worried that they might increase volatility and contagion in some respects, such as by reducing liquidity in financial markets by disincentivizing market-making or encouraging liquidity hoarding by individual banks. Finally, several participants argued that rules on risk-weighted capital promoted misallocation of capital and credit constraints on borrowers such as SMEs that could increase the fragility of the economies in which the banks operated.

Many participants also saw regulatory burden and risk-weighted capital regulations as shifting more lending and financial activity to shadow banking. A number of participants argued that shadow banking thus filled an important gap in the financial system, as SMEs and risky borrowers could find credit that banks were unable to lend them due to regulations. However, it was also noted that shadow banking lacked both transparency, the same degree of backstopping as for banks by central banks, or deposit insurance. Many participants argued that, by converting short-term market finance into medium- and long-term lending, shadow banking created vulnerabilities for the financial system that could not easily be detected and whose contagion might be more difficult to stop.

Participants saw capital markets as a third potential sectoral origin of the next financial crisis. They noted several recent developments in capital markets that could make systems more vulnerable to crisis. First, several participants expressed concern about the prevalence of index funds and passive management. The main concern was not the effects of passive management on corporate governance. Rather, these participants worried that passive strategies reduced the quality of information in markets, since few market players were carrying out independent assessments of value and risk. In this way, the prevalence of index funds could weaken price discovery and worsen capital allocation, as well as herd behavior. Herd behavior was also seen as a potential danger of widespread algorithmic trading. Rapid, automated trading could offer greater liquidity and lower spreads, to the benefit of many investors. However, if many algorithmic traders were operating off of similar models (including assumptions about distributions and risk), then algorithmic trading could exacerbate herd behavior rather than counteract it. A final capital market concern that was raised briefly was the concentration of risk in derivatives clearinghouses. Several participants raised the possibility that a clearinghouse failure could cause a cascade of defaults and failures of precisely the sort that they were created to avoid.

Finally, many participants expressed concern that financial technology itself could be the source of the next major crisis. Technology was seen to be transforming the financial sector at all levels, from customer service to trading to recordkeeping to clearing, and these participants worried that the vulnerabilities of financial technology were not well understood by regulators or even by practitioners. One high-profile danger was cyberattacks, whether executed as larceny (as in the recent theft of almost $1 billion dollars from Bangladesh Bank using the SWIFT network), data breaches, or a malicious attack meant to paralyze operations. While financial institutions and regulators have devoted increasing resources to understanding and addressing cyber vulnerabilities, many participants worried about attacks that could shut down payments or clearing systems. Stepping away from intentional attacks, some participants worried also about the potential for critical systems failures that could reverberate across the global financial system. Finally, it was noted that financial technologies had vastly increased the speed of transactions, from the wholesale all the way to the retail level. This could allow crises to propagate more quickly, by enabling herd behavior or "flash crashes."

Other Potential Causes of Financial Crises

While much of the discussion of potential crises focused on economic matters or the economic effects of post-crisis regulation, participants also raised other possibilities for the origin of the next crisis. Politics played a major role in most of the scenarios raised.

Many participants expressed unease about the level of populist discontent against financial institutions, market-oriented policies, and globalization in general. They pointed to the Brexit vote and the strength of anti-status quo politicians such as

Donald Trump and Bernie Sanders during the US presidential campaign, as well as polls suggesting the rising popularity of both left-wing and right-wing populist parties in countries across Europe. Participants saw these trends as raising uncertainty regarding regulation, openness, and tax policies—and thus contributing to financial volatility. Radical shifts in policy or market access could also plunge economies into recession or worse, while forcing financial institutions to fundamentally change their international operations and business models. A central question in this discussion was the fate of the EU, which had been called into question by the Brexit vote and the possibility of further consequential elections that could reduce the Union geographically or functionally (e.g., by rolling back EU jurisdiction over social regulation or immigration)—either one of which could cause a crisis within the EU spreading quickly elsewhere.

Beyond elections, a number of participants worried that the risk of armed conflict among major economies was on the rise. Of particular concern to participants in Karuizawa were conflicting claims and increasingly assertive naval and air force activities in the East and South China Sea that could draw the US and/or Japan into direct confrontation or even conflict with China. However, participants also noted that the US and Russia were increasingly engaging in active hostilities very close to each other in Syria, as well as possible proxy wars elsewhere in the Middle East and the former Soviet space. A number of participants feared that an unintended engagement in one of those areas could spark broader conflicts, significantly impact global or regional trade, and generally create severe economic harm.

Most participants rated the likelihood of war as very low. And many saw more longstanding failures to solve fundamental problems as more consequential than a single election. A particularly important one was the unfunded liabilities of public pensions and of municipalities. Participants agreed that many public pensions and subnational governments had made commitments that would be difficult to repay. If they did not pay those obligations in full, the impact on the legitimacy of parties and governments could be enormous; however, their ability to raise funds through taxation or transfers from the central government would be equally constrained. These participants saw the situation as only exacerbating the populist backlash against financial institutions and globalization.

There were also concerns raised about the desire to punish financial institutions for what many voters considered to be their wrongdoing. Some participants argued that one reason why new financial regulations were so onerous and prescriptive was that so few financiers had gone to prison or been prosecuted as individuals in the global financial crisis, despite the loss of massive amounts of households' wealth. But while stiff penalties might be an effective deterrent to wrongdoing, other participants expressed concern that the threat of fines or prison for financial professionals would further reduce the willingness of banks to take reasonable risks and would shift risk further away from regulated sectors and into shadow banking and regulatory havens.

Finally, some participants argued that potentially the biggest risks might come from natural disasters, such as an enormous earthquake that hit Tokyo directly.

Are We Prepared?

The final topic for discussion in Session 1 was the extent to which the international system and major country financial authorities were prepared to manage the next crisis, by preventing contagion within and across borders. Participants expressed mixed opinions about the capabilities of financial authorities and about the impact of post-crisis regulation on crisis emergence and management.

A major concern for participants in this regard was the effects of post-crisis banking regulation. As noted above, participants generally felt that individual banks were less likely to face insolvency crises due to enhanced capital requirements (especially for systemically important financial institutions) and, to a lesser extent, other regulations such as "living wills." However, many were concerned that the system itself might be more fragile, as liquidity in key markets was squeezed and incentives for herd behavior were increased through risk-weighting rules. Moreover, there was considerable concern that reduction of risk in banks had simply been a result of diversion of risk into less-regulated non-banks that were likely to operate outside the ambit of macroprudential supervision—such as wealth management products and internet finance in China, or medium- to long-term lending based on short-term securities by non-banks in developed economies. While some participants warned that it was important to extend the reach of regulation and macroprudential supervision to non-banks, others cautioned against regulating all financial institutions according to the banking regulation model.

Some participants also raised concerns about the effects of post-crisis regulations on the quality of bank management. Several argued that strict risk-weighting rules, for example, reduced discretion of financial institutions in managing their risk according to their own analysis. Meanwhile, some made the case that restrictive compensation rules in the EU were leading to an exodus of top professionals from banks, weakening banks' capabilities to prevent and manage exigencies.

While participants by and large expressed the opinion that post-crisis regulations would reduce the likelihood of financial crises (albeit at the cost of slower economic growth due to constraints on lending to risky projects), many participants expressed real alarm at the ways in which these regulations restricted authorities' ability to prevent contagion and to manage potential financial meltdowns. A particular concern was the way that Dodd-Frank restricted the Fed's ability to act as a lender of last resort. It was argued that the lender of last resort function was essential to any liquidity crisis—and that in the end, all financial crises are characterized by a sudden drying-up of liquidity.

Finally, many participants agreed that populist resentment of economic elites in general and financial institutions in particular would limit the ability of authorities to manage crises. They noted that many of the most effective crisis management measures, from lender of last resort to recapitalization to deployment of deposit insurance, gave the impression of using public funds to bail out rapacious bankers. Few political leaders would be willing to make proactive use of such measures, even where post-crisis regulation still allowed it.

Session 2: Effects, Limits and Consequences Of Monetary Policy in the US & Japan

In Session 2, participants discussed the impacts and future prospects for monetary policy in advanced economies, with a particular focus on Japan. They discussed the causes of persistent low growth and deflation, and addressed recent monetary policy initiatives of the Bank of Japan (BOJ) and other central banks, including quantitative easing (QE), negative interest rate policy (NIRP), price-level targeting, and yield curve control (YCC). There was considerable concern about the negative side-effects of unconventional tools of monetary easing and considerable disagreement over what central bankers could or should do to reactivate stagnant economies.

Deflation & Monetary Policy

Participants noted that, in the face of deflation and persistent slow growth, central banks in major economies around the world found themselves challenged to support economic growth. In the absence of private demand for credit, central bankers had experimented with a variety of unconventional monetary policy tools to try to reinvigorate investment and bring about inflation. The BOJ had been at the forefront of a number of these efforts, having been the first central bank to experiment with quantitative easing, zero interest rate policy, and yield curve control.

Participants questioned whether these methods had been effective. A number of participants pointed out that, despite aggressive easing policies, inflation had remained elusive. In Japan, Governor Kuroda's 2012 pledge to raise core inflation to 2% within two years had still not been achieved, and even optimists saw it as unlikely that the goal would be achieved before 2019. Some suggested that it might even make sense to raise interest rates in order to address some of the negative effects of zero or negative rates. Other participants argued that aggressive monetary easing had been effective in staving off credit crunches and recessions in those countries that had followed it. They presented evidence that QE in the US and UK in the aftermath of the global financial crisis had helped those economies to return to growth more quickly than the Eurozone or Japan, whose central banks had been more timid, and that since Kuroda's appointment to the BOJ, inflation and nominal growth had mostly moved into positive territory. Still, they generally saw diminishing returns to further monetary measures, raising the urgency of reinvigorating growth through whatever policies might be available.

A conclusion for many participants was that monetary policy alone was not sufficient to bring about either inflation or growth. This was seen as particularly important for those economies with shrinking labor forces, such as Japan and several European countries. In this regard, many participants structured their arguments around the three stated pillars of Abenomics—monetary, fiscal, and structural policies. It was argued that only structural policies to improve supply-side efficiency and allow for the development of new products and services could address the long-term problem of weak growth and low returns. However, structural policies needed to be supplemented by public efforts to support consumption and investment, through both fiscal and monetary policy. Many participants argued that in Japan and elsewhere, structural policies had stalled and fiscal policy had reversed (from stimulative to contractionary), leaving monetary policy alone to revive economies.

In the end, monetary policy was seen by many participants as both overburdened and generating increasingly negative side effects—but also, in the absence of other viable growth policies, as an unavoidable addiction. Thus, monetary policymakers were faced with a dilemma that one participant characterized as, "Nobody likes what we're doing but everyone wants more."

Explanations for Deflation and Monetary Policy Channels

The persistence of deflation in Japan and other developed economies remained a mystery to many participants. Despite the established view that inflation was "always and everywhere a monetary phenomenon," central banks had apparently been unable to create inflation, let alone economic growth. What could account for persistent deflation of this nature?

Deflation

Participants posited various causes for deflation. For many, the key was lack of demand. A common explanation in this vein was demographics. Looking at the example of Japan, the world's most elderly and rapidly aging society, a number of participants argued that the declining labor force inevitably meant lower demand, as a lower proportion of households were earning income. This might be further exacerbated by the fact that retiree households assets were earning such low returns that their consumption was depressed. Some also suggested that older individuals might have less propensity to improve their homes or purchase long-lived assets like cars or appliances. Alternatively, some participants argued that insufficient demand was a hangover from the global financial crisis, and that overcapacity remained in place in many goods and services. In some industries, such as basic materials, overcapacity in China was seen as depressing global prices, leading to weak or even negative returns for producers in Japan and elsewhere and therefore depressing investment demand.

Technological developments were also seen as contributing to deflation, in two ways. First, increasing returns to scale were driving down prices in many goods and services. Second, labor-saving technology was disrupting many industries and reducing the need for many employees. Several participants argued that this was contributing to declining household income and thus declining demand. One potentially disturbing implication of this argument was that supply-side improvements might actually contribute to deflation rather than automatically fuel economic growth.

Finally, several participants argued that returns in many sectors were suppressed by overregulation. To some extent, this included anti-competitive regulations in particular goods and services. But a number of participants also pointed to financial regulations that made it hard for SMEs and relatively new companies to gain access to credit (e.g., Basel III-based risk-weighting) or to bankruptcy and other regulations that reduced incentives for entrepreneurs to start or grow companies.

Monetary Policy Channels

In discussing the impact of monetary policy on inflation and nominal growth, participants considered three channels of monetary policy transmission: expectations, credit, and currency. Each of these, it was argued, was challenging in the Japanese context, contributing to the need for ever more bold monetary policy experiments.

The first channel considered was inflationary expectations. Participants noted that inflation targeting had been advocated by economists as a necessary supplement to quantitative easing for over a decade in Japan. Although it was adopted relatively late there, it was an explicit component of the much more successful QE efforts of the US Federal Reserve in the wake of the global financial crisis. In Japan, however, inflationary expectations had been stubbornly low, and the challenge of raising them appeared likely to grow, the longer deflation persisted. One problem that some participants flagged was that unconventional monetary policy depends on the reaction of individuals to monetary policy signals; however, not only are many of those signals are hard to understand, but some participants pointed out that the economics profession may not have a comparative advantage in explaining expectations compared to social psychologists.

The second channel was credit. In principle, lower interest rates and reduced credit constraints on economic actors should lead to higher borrowing for investment and consumption. While there was no single accepted explanation for the lack of investment demand, participants agreed that this channel too had stalled.

The third channel was currency depreciation. Many participants considered this channel of monetary policy transmission to have been the most effective, citing in particular the 60% depreciation of the yen relative to the dollar from 2012 to 2015. This depreciation had contributed to CPI inflation and to improved profits for exporters, and thus contributed significantly to overall growth. However, over the last two years, depreciation had first stalled and then reversed. At the time of the Symposium, the yen was over 15% stronger relative to the dollar than at its peak the previous year. One problem was that many countries were engaged in monetary easing, and currencies cannot all depreciate at once. Another was political—not only had G20 countries agreed not to engage in competitive devaluation, but the issue of undervaluation of the Japanese yen had unexpectedly resurfaced in the US presidential election, thus raising pressure on Japan not to push depreciation.

Monetary Policy Tools & Next Steps

Having discussed the efficacy of Japan's monetary easing policies to date, participants debated new and potential developments in monetary policy, including negative interest rates, yield curve control, helicopter money, and the possibility of raising instead of lowering interest rates. There was considerable disagreement over the potential advantages and disadvantages of each measure.

There was considerable discussion regarding the implications of breaking the zero bound with NIRP. Some participants took the position that this was simply one more logical step in lowering real interest rates, and that it should have a stimulative effect on inflation and borrowing. Many others were skeptical. A major sticking point was that it was unlikely that economic actors would buy securities or hold deposits with negative nominal returns when most could simply hoard cash instead. Some skeptics did feel that it might be feasible to go negative on very short-term rates. They reasoned these would primarily be in the interbank market, where there were no cash alternatives and the BOJ could implement the policy directly through reserves policy. They also pointed out that most rates through the yield curve could remain positive, creating at least some incentive for investors.

Both proponents and opponents agreed that, in order to have NIRP really work as planned, there would need to be a means of imposing negative interest rates on demand deposits and currency in circulation. The only way to impose losses on currency in a deflationary environment would be through a move to cashless society; to the extent that cash was replaced by digital currency whose supply was controlled by the central bank, the central bank could automatically devalue currency holdings by all economic actors. While theoretically possible, this seemed to many participants to be extremely difficult to do from both practical and political standpoints. Imposing negative interest on demand deposits appeared more feasible to many participants, particularly if it were done through imposition of fees and/or focused on business deposits, but here again there were questions of how depositors would react. It was predicted by a number of participants that many depositors would shift to cash, although holding cash would incur safety risks and make payments more difficult. However, many participants argued that negative interest rates for households would raise such an outcry that banks would choose not to impose them—thus further compressing spreads, weakening the willingness of banks to lend, and even raising the threat of bank failures.

Yield curve control also received attention from participants. Proponents made the case that yield curve control was essential to NIRP—by holding the shape of the yield curve constant and focusing policy on shifting long-term rates downward, the BOJ would be able to force short-term rates into negative territory. It was also noted that the BOJ had already been focusing its attention on longer-term interest rates through its investments in long-term JBGs and other assets. YCC would provide a rationale for continuing those efforts while also facilitating NIRP. Skeptics raised questions about the practical effects of a NIRP/YCC policy on investor confidence, while also referencing some of the concerns already noted with regard to NIRP.

Price-level targeting was not discussed at the same length as NIRP and YCC. Most participants appeared to agree that in principle it would be a good way of committing to higher prices. However, there was real skepticism about the ability of the BOJ to overshoot on inflation given that it had been unable to hit its avowed 2% inflation target despite years of efforts. Among those who agreed that overshooting would be possible, a few participants raised the possibility that inflation could continue to accelerate at that point, with implications both for debt sustainability and for economic growth.

"Helicopter money" was another topic of discussion in Session 2, with a number of participants raised it as a logical and fair solution to the problems of expanding credit at the zero bound. One of the challenges in discussing helicopter money was a lack of consensus on how it could be achieved in real life. Some participants argued that it was feasible simply by having the Bank of Japan directly fund government spending. Others countered that this was effectively already happening, since the BOJ was buying such a large proportion of JGBs, including long bonds. Another suggestion was the issuance of perpetual bonds with a positive interest rate—arguably, the government of Japan could just restructure all its debt to 100 years or more at low interest rates. This would reduce constraints on government spending, including infrastructure investment. One concern raised regarding perpetuals was that households may understand them to presage higher taxes, and thus engage in precautionary savings. If that were to happen, the benefits of perpetuals could be lost.

One question that was raised about all of these innovative monetary policy measures was whether economic actors (whether household or corporate) would respond to those measures as the models predicted. A number of participants expressed their frustration that previous approaches to changing expectations, including inflation targeting, had failed to change consumer behavior or spur investment to the desired extent. Some participants argued that this was simply a problem of communication, and that there should be ways to make people believe that policies would have their desired effects. Others countered that the economics profession was not well-equipped to make predictions about how people would react in unknown situations. They argued that, rather than assuming rational expectations, it might be better to analyze consumer and investor behavior in these circumstances from the point of view of social psychology. Either way, many participants wondered whether the logic of new or proposed policy tools such as NIRP, yield curve control, and perpetuals could be communicated to the general public in such a way that they would respond as desired.

Finally, some participants argued that central banks should actually raise interest rates. They argued that zero or negative interest rates reduced incentives to make risky investments and for banks to weed out weak borrowers, thus leading to low investment and poor allocation of credit. Moreover, they made the case that Japan's senior citizens, who held the largest stock of savings, were choosing not to spend because their nest eggs had zero or negative returns—thus, in order to ensure that their savings held throughout their lifetimes, they were restraining their consumption. Many other participants found these arguments unconvincing. They argued that QE had been demonstrated empirically to have propped up economic growth in Japan and other countries, and that raising interest rates would severely damage the economy. For example, they made the case that depreciation was the most effective channel for monetary policy transmission in the Japanese economy, and that raising interest rates would cause yen appreciation. A third critique of raising interest rates was that the major cause of lack of investment in the Japanese economy resulted not from the savings behavior of elderly households, but rather cash hoarding by corporations. Raising interest rates would only increase the benefits to corporations of not investing; thus, some argued, the situation actually called for negative interest rates.

Negative Effects of QE & NIRP

While debate was inconclusive as to whether QE and NIRP could accomplish what they were designed for, participants agreed that there were a host of actual or potential negative side effects of those policies.

A particular concern was that low rates hurt the business models of banks and insurance companies. For banks, this was at least potentially manageable if yield curve control were to maintain a spread even as interest rates shifted into negative territory, but negative interest rates promised to be particularly damaging for life insurance companies that had promised growth or at least preservation of principal over long time frames.

It was also argued that changes in bank behavior could have one of two negative (but at least partly contradictory) effects. First, they could reduce banks' and investors appetite for providing risk capital to corporations. If spreads were squeezed or interest rates extremely low or negative, the impact of any losses on loans would be magnified. The lack of risk capital could contribute to a self-reinforcing negative cycle. Some participants made the opposite argument. They worried that low returns in credit markets would cause investors to flee into excessively risky assets, including foreign and alternative assets that would expose them to currency or liquidity risk for which they were not prepared.

Turning to financial markets, a number of participants worried about how quantitative easing would affect market illiquidity. These participants argued that, as central banks took on larger and larger portions of outstanding government bonds—and even ETFs and REITs—the volume of tradable securities was inevitably declining. The recent decision of Bank of Tokyo-Mitsubishi UFJ to withdraw from being a primary dealer in JGBs was seen as symptomatic of declining liquidity more broadly.

Low and negative rates were also seen as having some negative effects on borrowers. A number of participants argued that household savings was likely driven more by wealth effects than by income effects—in other words, low or negative interest rates would drive higher savings, as working households sought to provision for future retirement and retirees sought to make their savings last longer. The resulting rise in precautionary savings (which implies a decline in demand for credit) could wash out the positive effects of aggressive monetary policy. Meanwhile, several participants pointed to evidence that quantitative easing had exacerbated problems of economic inequality. Extremely low interest rates were seen to have benefited wealthy people and corporations more than regular households, due to rising asset prices. They also allowed for economically vibrant regions or countries—which had adequate tax bases and strong credit ratings—to invest in infrastructure at low cost, while others were left behind. Thus, for some participants, extremely low interest rates were an important link between weak economic growth and widespread populism in the US and Europe.

A separate set of concerns were seen as likely to arise if/when exit from deflation and QE were to finally occur. In the private sector, participants noted that the solvency of banks and insurers might be threatened by rising interest rates, as balance sheets would be battered by rising funding costs at the same time that rates of return on assets remained at historically low levels. They asked whether financial institutions were prepared to manage those risks, and whether prudential regulators were doing enough to ensure that they could stay healthy as central banks, particularly the BOJ, managed the exit from ultra-low rates and quantitative easing.

Turning to the public sector, a number of participants expressed concern about the sustainability of Japanese fiscal debt in the face of rising interest rates, especially if debt continued to grow more rapidly than the economy. Other participants countered that this concern was overblown, since the Japanese government had been assiduously lengthening the maturity of its outstanding bonds. Several participants observed that rate increases would also increase the balance sheet losses of the BOJ. While few worried about the credibility of central bank in this situation, participants noted that it would have negative effects on BOJ transfers of profits to the central government.

Necessary But Not Sufficient

Overall, most participants agreed that assertive monetary policies were necessary but not sufficient for Japan and other low-growth advanced economies to resume normal growth. As on participant put it, “Money does not create wealth.” Rather, a holistic approach must be taken that included fiscal and structural policies.

Many participants applauded the Japanese authorities' efforts to coordinate fiscal and monetary policies as one of the core rationales for Abenomics. However, a number of participants expressed concern over what they saw as excessively restrictive fiscal policy. Despite the introduction of stimulus packages in 2014 and 2016, they argued that Japan's success in reducing the primary budget deficit had come at the expense of economic growth. Fiscal consolidation was seen in both the rising consumption tax and cuts in discretionary spending, including public works. There was considerable disagreement over the consumption tax. A number of participants argued that it was the only way to regain fiscal sustainability, given the huge commitments to pensions, health care, and debt service. Others criticized it as regressive and recessionary. They argued that it cut into disposable income for working class and middle class households and thus reduced consumption, which was essential not only on its own terms but also for justifying corporate investment. There was an inconclusive debate about the dilemmas of how to square short-term stimulus and long-term consolidation. In this regard, many participants accepted the necessity of higher consumption taxes (but not yet), but also called for steps to accelerate growth. The most prominent recommendations for how to help fiscal policy support private sector-led growth was through investments in education, infrastructure, and R&D.

Finally, many participants stressed the importance of structural reforms to improve productivity. The discussion focused on three elements: labor reform, technological progress, and corporate governance reform. Participants presented a variety of ideas regarding labor market reforms. There was a high level of support for policies that would support greater labor participation—particularly by women and seniors—to make up for the declining working-age population. These included pension reforms, expanded day care, and encouragement of flex-time and working from home. Some also noted that expanded immigration could address labor supply gaps. Many also called for greater flexibility in the labor system, including moving away from norms of lifetime employment and toward performance-based pay. There was less consensus in that regard, however, as some participants worried that "flexibility" would just mean reducing job security, eliminating protections for regular workers (rather than increasing opportunities for temporary and contract workers), and thus reduced household income and/or increased precautionary saving.

There was also considerable support for measures to promote productivity, including R&D support, reduced regulation on entry and business practices, and support for entrepreneurs (e.g., reforming bankruptcy law and easing financial constraints on SMEs). There were, however, a few participants who argued that productivity improvements due to rapid technological progress were part of the problem, as they tended to reduce labor demand and labor share of income. To the extent that labor reforms and productivity were likely to have negative short-turn effects on employment and demand, these participants argued that stimulative fiscal policy would be appropriate until the positive long-run effects of structural reform fully phased in.

Finally, as in previous Symposiums, many participants asked what could be done to make companies more profit-oriented and accountable to shareholders. A number of participants noted recent corporate governance reforms, including the stewardship code, but expressed frustration that they seemed to have had limited effects. While specifics of corporate governance reform were not discussed at length, participants raised at least two specific questions. First, they noted the dominant role that the BOJ and Government Pension Investment Fund were playing in equity markets and asked whether corporate accountability could be expected as long as market prices were being driven by those official actors. Second, they noted the rise in passive investors in general, and questioned whether it was realistic to expect passive investors to force better management regardless of corporate governance reforms.

Session 3: Implications of the US Presidential Election for US-Japan Relations

In Session 3, participants discussed the potential implications of the upcoming US presidential election for US-Japan relations. The Symposium concluded nine days before the election, and most participants in this discussion expected that Hillary Clinton would likely win the White House, despite the announcement during the Symposium by FBI Director James Comey that the FBI was investigating newly-found emails related to Clinton on a computer used by one of her aides. While the expectation of a Clinton victory proved to be incorrect, many elements of the Session 3 discussion remained pertinent to the implications of the upcoming change in US administrations.

Societal Divisions, Populism, and Legitimacy

Participants agreed that the dynamics and trajectory of the presidential election campaign had been not only unexpected, but likely unprecedented. Both the presidential primaries and the general election campaign had exposed the depth of societal divisions across multiple axes—class, race, religion, region, education, and economic opportunity—as well as the deep-seated resentment that many Americans held towards political and economic elites. In this sense, participants saw the US presidential election cycle as being a representative of a global "populist moment" that was also being seen in the Brexit vote and the rise of both far-right and far-left political parties across Europe—a trend from which, some observed, Japan alone appeared to be immune, despite long-term deflation and growing domestic economic inequality.

A number of participants agreed that the economic inequality that helped to fuel populist anger should be understood as a failure of policies to date. In particular, some of these participants pointed to the lack of support for workers who had lost their jobs due to trade. While many European countries had sought, with varying levels of success, to create social safety nets and job retraining opportunities for displaced workers, more modest US support for long-term unemployed and retraining meant that many workers not only felt vulnerable to the vicissitudes of globalization and technological change, but also felt abandoned by the various administrations and legislators they had elected. These participants argued that such feelings of alienation and aggrievedness had fueled the candidacies of both Bernie Sanders on the left and Donald Trump, Ted Cruz, and others on the right.

While few if any participants expected Trump to win, they did expect that a Clinton presidency would be challenged both by an oppositional Republican-dominated House of Representatives (and an at-best razor-thin majority in the Senate) and by widespread questioning of her own legitimacy and the legitimacy of her administration. For many participants, this suggested that incremental change was most likely in a Clinton Administration.

Effects on Financial Regulation

Much of the discussion on effects on financial regulation focused on what might happen under a Clinton administration. Participants noted that the Clinton campaign had produced a fairly detailed policy paper, whose centerpiece was keeping the Dodd-Frank Act intact. Many participants expected that a Clinton administration or administrative agencies headed by Clinton appointees would be more assertive in pushing investor and consumer protection and in pursuing enforcement actions against individuals (e.g., clawbacks). However, the expectation of a Republican-controlled House meant that most such actions would have to be based on interpretations of existing law. Specific policies that might occur included expansion of banking regulation further into the shadow banking area, stricter regulation of high-frequency trading, and perhaps breakups of large financial institutions through the living will process. It was expected that a Clinton administration would choose from a known stable of regulators for various bodies like the SEC, CFTC, and CFPB; while particular personalities were seen to be associated with different preferences, overall the expectation was for incremental change.

Participants saw much greater uncertainty concerning potential Trump administration policies toward financial regulation. They did note, during his campaign, he had vowed to dismantle Dodd-Frank, but no specifics were offered. He had also signaled a preference for reimposing Glass-Steagall, again without providing specifics. Given the divisions among Congressional Republicans on these matters as well, few were willing to make a prediction about what would happen in terms of financial regulation. Moreover, it was agreed that there had been no indication of who a Trump administration might appoint to various regulatory bodies; thus, participants were unwilling to speculate as to whether implementation of regulations would see incremental or major changes. Finally, a major concern for some participants was the mixed signals that the Trump campaign had sent regarding the Fed. Participants noted a variety of critical remarks, including over low-interest rate policy and the possibility of auditing the Fed. Again, participants were unable to make confident predictions about how a Trump administration would behave toward the Fed or about who might be appointed as positions opened up on the Board, but many expressed concern over the potential of politicization.

Effects on Trade

Participants agreed that the results of the election could have profound effects on US trade policy. Both candidates had expressed skepticism about US trade policies to date, and participants expected that neither candidate would advance a proactive agenda of opening US and global markets.

A particular concern for many Symposium participants was the fate of the Trans-Pacific Partnership (TPP), the most ambitious regional trade agreement either the US or Japan had ever negotiated. Despite Clinton's stated opposition to the Trans-Pacific Partnership (TPP), many expected that she would either tacitly encourage passage of TPP enabling legislation during the lame-duck session or else find a way to support it after a year or more (possibly with the addition of side agreements that would satisfy the concerns of Sanders supporters). Overall, they anticipated a pro-trade administration, albeit one that was more aggressive in pressing cases against perceived unfair trading practices. Most participants saw Clinton as a steady hand in US-Japan trade relations, despite her stated opposition to TPP.

In contrast, the Trump campaign was built on an explicitly anti-trade agenda, with threats against Mexico and NAFTA, China, South Korea, and Japan. During the campaign, Trump had been highly critical of trade deals in general and raised the possibility of withdrawal from various agreements, including NAFTA. He had also attacked Japan as a currency manipulator and unfair trader, leading to concerns over how a Trump administration might handle US-Japan economic relations.

China had been a particular target for the Trump, and to a lesser extent the Clinton, campaigns. Based on campaign statements, it appeared particularly likely that a Clinton administration would be assertive in addressing Chinese trade and investment practices and ongoing negotiations on a Bilateral Investment Treaty would slow considerably. Overall, there was an expectation of tenser economic relations with China under a Clinton administration. Meanwhile, Trump stated repeatedly through the campaign that his administration would declare China a currency manipulator and impose a surcharge of as high as 45% on all Chinese imports. While participants expressed some skepticism that those promises would be carried out in full, they anticipated that economic relations with China under a Trump administration would deteriorate significantly.

While a Trump administration trade policy would likely cause harm to China, some participants suggested that China would benefit politically from US protectionism, by taking a preeminent leadership position in Asia. Several participants agreed that the demise of TPP would strengthen Chinese-led trade initiatives, while also increasing the centrality of China as a market and source of finance.

Effects on Allies

Participants agreed that the two candidates had offered very different visions of the US role in the world. Clinton was seen as committed to traditional US goals of international engagement, support of allies, and strengthening of a rule-governed international order. While participants expected that a Clinton administration would be more hawkish than the Obama administration, the general picture was of continuity. In particular, Clinton's role in promoting the Pivot to Asia, her firm commitment to the US-Japan and US-Korea alliances, and her support of an assertive naval presence in the Western Pacific was seen by many participants to be reassuring for Japan. That said, some participants expressed real concerns over the impact of a Clinton win, in particular with regard to the impact her security policies might have on peace in East Asia. They worried that confrontation with China might be more likely, given the more muscular policy articulated in the campaign, with potentially disastrous results.

In contrast, many participants pointed to the Trump campaign's "America First" slogan as epitomizing a possible return to American isolationism. While contradictory campaign statements suggesting both hawkish and dovish security preferences led to uncertainty about what a Trump administration might actually do, many participants agreed with the assessment that Trump's basic view of international relations was "highly transactional." From the perspective of US-Japan relations, this was seen as playing out particularly in his stated intention to make Japan pay more for US protection if it wanted to maintain the alliance. For many Japanese participants, this was an unwelcome wake-up call that the bedrock of Japan's security policy could be in peril under a Trump administration.

Finally, a number of participants worried that US allies and partners around the world might lose confidence that the US would continue to take a positive and leading role in the world. With the 2016 election, questions had arisen as to whether Japan and other allies would be able to rely on the US, and how they might be able to ensure its security without US support. Symposium participants worried especially about the impact on the US-Japan relationship, which they applauded for having grown from a security alliance and marriage of convenience to a deep and multidimensional friendship. As one Japanese participant put it, "The US is not just one player in international power politics. It also represents values of freedom and openness. Can it still be a beacon of hope after this election?"

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