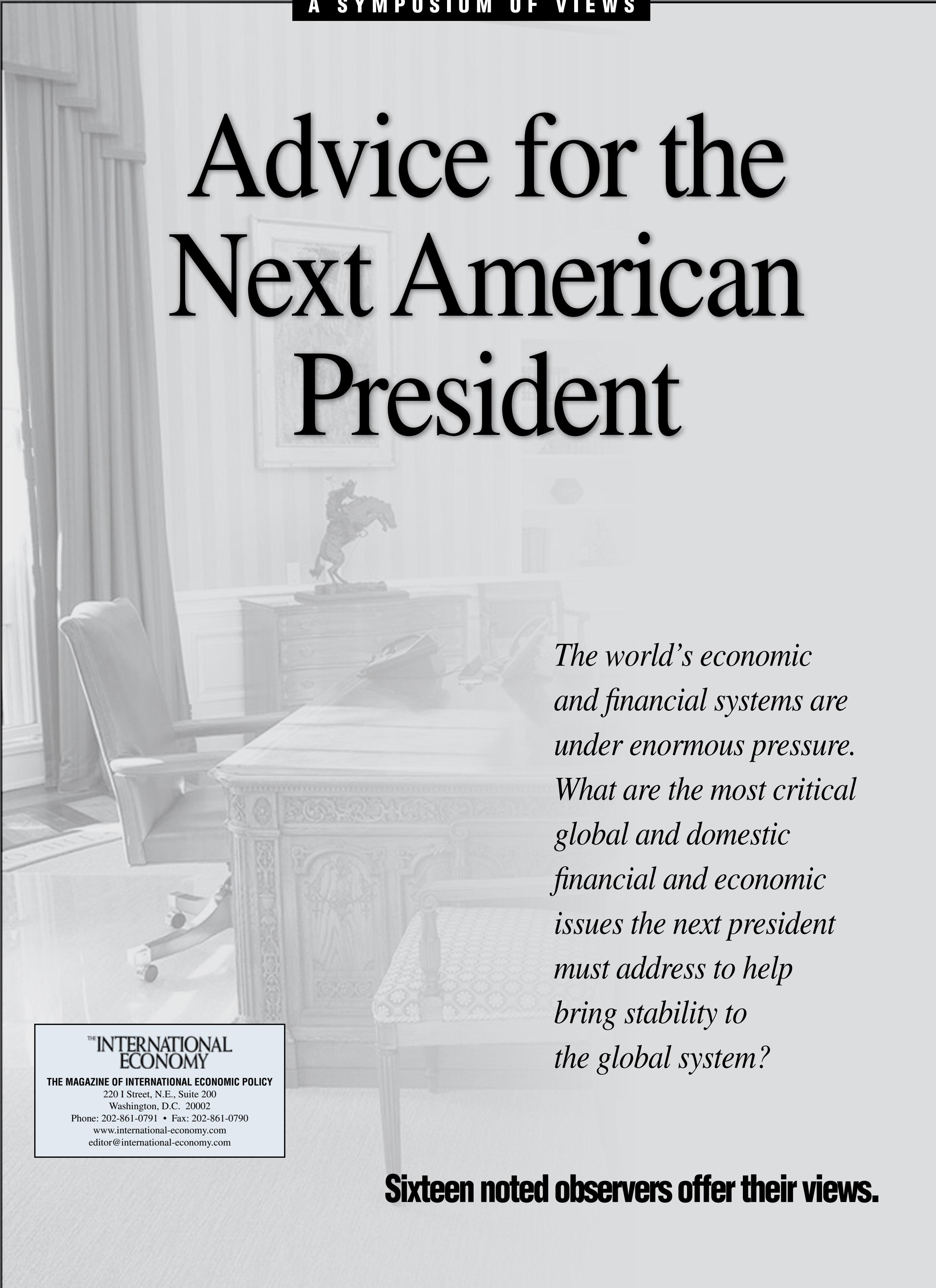

A SYMPOSIUM OF VIEWS

Advice for the Next American President

The world's economic and financial systems are under enormous pressure. What are the most critical global and domestic financial and economic issues the next president must address to help bring stability to the global system?

THE INTERNATIONAL ECONOMY
THE MAGAZINE OF INTERNATIONAL ECONOMIC POLICY
220 I Street, N.E., Suite 200
Washington, D.C. 20002
Phone: 202-861-0791 • Fax: 202-861-0790
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Sixteen noted observers offer their views.

Increase the growth rate of the U.S. economy and the real wages of the middle class.

GEORGE R. HOGUET
Global Investment Strategist, Investment Solutions Group, State Street Global Advisors

The ability of the United States to influence the policy actions of other states is increasingly limited. And the next president will be entering office in the latter phases of the current U.S. economic expansion. The most important contribution the next U.S. president can make to promote global prosperity and stability is to increase both the potential and actual growth rate of the U.S. economy and the real wages of the U.S. middle class.

On the supply side, this goal means adopting family-friendly policies to increase the female labor force participation rate; increasing incentives to work longer; keeping the U.S. economy open to foreign goods, skilled immigrants, and investment, particularly from China; adopting education and training policies to keep the U.S. labor force healthy, highly flexible, and competitive in the digital economy; and an investment tax credit to promote the acquisition of plant and equipment and capital deepening.

On the demand side, this goal means initiating targeted infrastructure investments designed to enhance work force productivity and mobility. The U.S. air traffic control system, Penn Station in New York City, and various mass transit systems around the country might be some good places to start.

The next president should also address the roughly $1 trillion in tax expenditures, and should propose a radically simplified and less distortive tax code and enhanced measures to reduce tax evasion. Part of the deal could be a lower corporate tax rate, entitlement reform, and medium-term fiscal consolidation designed to stabilize the U.S. debt-to-GDP ratio. Even a moderate sustained increase in the U.S. growth rate meaningfully improves the U.S. fiscal situation and the ability to respond to shocks. And it enhances economic opportunity domestically and overseas.

Internationally, a key priority should be to convince China of the benefits conferred by being a responsible stakeholder in the international system, and to find ways where the United States and China can work together. Together the two economies represent about 40 percent of global output (in nominal GDP terms), and the health of both is one key to global prosperity and stability. Meanwhile, the internet is both increasingly important to the global economy and increasingly anarchic. It's Too Big To Fail. An enforceable cyber security deal with China designed to protect intellectual property could promote financial stability and possibly serve as a template for a multilateral cybersecurity protocol.

As geopolitical and economic risks are inseparable, another priority for the incoming U.S. president should be a coherent but flexible Middle East policy. The Syrian conflict is widening; Russia's engagement adds a new dimension. Despite the gradual ramp-up in Iranian oil production, the risks of a supply shock coming out of the Middle East are growing. A large shock would be devastating to the world economy and the global financial system. This prospect should provide additional incentive for the United States to adopt cost-effective measures to enhance U.S. energy security and to promote the green economy.

Boost potential growth and strengthen competition in healthcare.

JAMES E. GLASSMAN
Head Economist, Chase Commercial Bank, JPMorgan Chase

All global financial and economic issues are local in nature, as in politics. Global financial stresses are best managed when the world's big economies are performing well. Concerns that emerging markets are vulnerable to a coming normalization of the Federal Reserve's monetary policy are misplaced, because actions that keep the U.S. economy on a sustainable path—and that includes policy settings—will over time prove to be the most helpful for emerging markets. In other words, the sooner the Federal Reserve begins to normalize its rates, the more orderly market adjustments will be.

With the U.S. economy well on its way to a full recovery, the next president could strengthen the U.S. economy's foundation and alleviate potential stresses in the global system by exploring ways to promote faster underlying growth and improve the efficiency of the health care sector.

The U.S. potential growth rate has slowed markedly since 2008, largely because the working-age population has decelerated as baby boomers retire. Even though the economy has expanded at only half the typical pace for a recovery, the slowdown in the labor force and potential output explains why the current recovery has been fairly normal in most respects. For example, despite slow GDP growth, most areas have recovered well, including the job market, stock market valuation, business profits, household balance sheets, car sales, capital spending (near record-high ratios relative to GDP), the federal budget deficit, and the vanishing mortgage underwater problem.

Slower labor force growth is not a cyclical challenge, because it lowers the bar for the amount of hiring needed to lower unemployment and the current recovery is proof of that. But slower labor force growth weakens the public sector's ability to pay for its promises.

Washington can't keep Americans from aging, but it can ameliorate some of that slowdown in labor force growth by strengthening incentives to work—for example, job skills training, more (tax) support for child care, expanded investment in transportation infrastructure to cut commuting times, and immigration reform. The payoffs for such initiatives could be significant, because only 68 percent of people under the age of forty-five (looking past the demographic trends) currently are employed, compared with 75 percent in the 1990s.

And initiatives to boost productivity, for example transforming the federal tax code towards a consumption-based system that once had bipartisan support, would promote a saving-investment culture that would stimulate longer-term growth incentives.

On the second key issue, improving the ability of the nation's healthcare system to better manage resources would address the growing burden on public sector and household budgets. Any move in this direction would address the nation's long-term structural deficit and surely have a favorable impact on global credit markets.

Federal revenues are likely to hold steady near the historical average of 18 percent of GDP, barring changes to the tax code. But spending is projected to rise steadily and automatically as a result of the promises reflected in the government's mandatory programs. Social security spending is projected to rise from 4.9 percent of GDP currently to 6.2 percent by mid-century, according to the Congressional Budget Office. That's largely because the system's statutory retirement ages are not linked to America's rising life expectancy. So, each generation of retirees earns more benefits than the previous one. The outlook for healthcare spending is even more challenging, with federal outlays for the major health care programs expected to rise from 5.2 percent of GDP currently to 8 percent by mid-century.

Naturally, the demand for health care would be expected to expand as living standards rise. But the current health care system does a poor job managing resources, because users are disengaged from the decision-making process. The employer-provided system removes the responsibility of individuals to make health insurance choices. It limits competition. The private insurance system is responsible for covering only the first sixty-five years of age, leaving federal health care programs to care for us after that, when many problems arise. For that reason, the private insurance system has less incentive to promote behaviors when we are young that might lessen risks when we are older.

A two-pronged agenda to boost potential growth and strengthen competition in the healthcare industry would go a long way toward re-energizing the U.S. economy and promoting greater global economic and financial stability.

Address both the demand and supply side reasons for slow GDP growth.

MARTIN NEIL BAILY
Bernard L. Schwartz Chair in Economic Policy Development and Senior Fellow and Director of the Business and Public Policy Initiative, Brookings Institution

Slow economic growth in the United States and the other advanced economies is the most challenging problem the next president will face. Former U.S. Treasury Secretary Larry Summers coined the term "secular stagnation" to describe a situation where aggregate demand is weak even with a zero interest rate. Economist Robert Gordon has suggested supply-side stagnation, resulting from a slowdown in productivity growth and a lack of major innovations. It is worth keeping the supply-side and the demand-side stories distinct, although of course they are not entirely separate. Investment contributes both to spurring demand and to supporting productivity growth.

The U.S. economy is now close to full employment and the Federal Reserve will soon increase the federal funds rate, so chronic aggregate demand weakness seems to be over for now, though inflation remains too low. No such luck in Europe or Japan where central bankers are using quantitative easing measures to bolster the impact of low rates.

What can the next U.S. president do? One approach is to employ expansionary fiscal policy in the form of an infrastructure program, and such a policy makes good sense for the United States where roads and public transportation have been neglected for years. Germany's once-admired infrastructure is also in need of investment, and both countries have the borrowing capacity to finance such programs. The politics of this approach are tough in either place. Congress is unlikely to support infrastructure investment of any magnitude and German Chancellor Angela Merkel is unlikely to listen to this or the next American president's ideas on economic policy.

Boosting productivity might be easier politically, where the next president could streamline regulation. I do not support eliminating regulation wholesale, because we need to protect worker and consumer safety and do more to mitigate climate change. But complex regulations, with overlapping state and federal rules, make it harder than it need be to start and run a business. The number of U.S. startups has been declining for years. Federal and state permitting should be harmonized and companies should not have to go to multiple agencies for permissions. As part of tax reform, the next president should cut back sharply on tax expenditures in exchange for a lower statutory tax rate. I favor an investment tax credit to spur both productivity and demand.

In every decade from 1954 to 2004, real GDP growth in the United States exceeded 3 percent, often well above that. From 2004 to 2014 the growth rate was 1.5 percent. Some of that decline is the aging of the baby boomers, but productivity growth has also been very weak and more people have left the workforce than aging alone would predict. The next American president must avoid the dangers of either political wing. Tax cuts are not the answer. Over-regulation is not the answer. Tax reform could help. Pro-growth policies have a sporting chance because innovation is actually very strong, despite the recent weakness in productivity.

The key is the dollar.

C. FRED BERGSTEN

Senior Fellow and Director Emeritus, Peterson Institute for International Economics

The next president may well face three intertwined international economic problems that could reach crisis proportions if not handled promptly and decisively. They all stem from the fact that she or he will inherit a world economy in which the United States will be the only major economy that is growing sustainably.

First, the exchange rate of the dollar could rise substantially further due to market forces. Superior U.S. performance points in this direction. So does normalization of monetary policy by the Federal Reserve, leading in particular to sizable capital outflows from many emerging market economies, while most other countries continue to ease.

Second, there is substantial risk of renewed currency wars. Europe and Japan will probably continue to stagnate. The large emerging markets, including China, may experience disappointing growth and possibly new recessions as they define them. Most of these countries could turn in desperation to export expansion fueled by weaker exchange rates.

Either of these developments, especially in combination, would levy large costs on the United States. It is the only country that has the economic capacity and, correctly or incorrectly, the political willingness to absorb a buildup of sizable trade surpluses in the rest of the world. The U.S. current account deficit is already headed toward $1 trillion over the next few years, and another 10 percent rise in the dollar, which would still leave the euro and yen and renminbi well above their lows of the past ten to twenty years, would take it close to $1.5 trillion. This would slice 3–4 percentage points off U.S. GDP. The current market consensus already expects a further dollar move in this range.

Third, anti-trade pressures would be intensified in the United States just as Congress addresses ratification of the megaregional Trans-Pacific Partnership (unless it fortuitously passes in 2016) and Transatlantic Trade and Investment Partnership, and considers expansion of the TPP to such major economies as China, Indonesia, Korea, and possibly India and Taiwan. Backlash against foreign currency manipulation and a rising U.S. external deficit, which came close to derailing trade promotion authority earlier this year despite their relatively modest magnitudes at the time, could tilt the scales against one or both. The result would be devastating for the global trading system (and for U.S. foreign policy).

The only way the new president can head off this triple whammy for the U.S. and world economies is to make sure that the dollar does not rise much if any beyond its current overvaluation of about 20 percent. This may require an agreement among the G-7 and G-20, like the Plaza Accord of 1985, to avoid further dollar appreciation and especially to prevent manipulation of exchange rates by other countries. The surplus economies may be unwilling or politically unable to cooperate because of their own weakness, however, so the United States might have to initiate countervailing intervention on its own at least against any that push their exchange rates down through overt or even oral intervention. The Federal Reserve will of course have to continue limiting its monetary tightening to avoid exacerbating the adverse consequences of dollar overvaluation on the U.S. economy.

In the event of a recession, fiscal and monetary policy could both be off the table.

JARED BERNSTEIN

Senior Fellow, Center on Budget and Policy Priorities, and former Chief Economist and Economic Adviser to Vice President Joe Biden

To the extent that American presidents think about global markets, it's from the perspective of the U.S. economy. Their goal in this regard is less "to bring stability to the global system"—that's more the turf of central banks and the International Monetary Fund—than to bring stability, growth, and prosperity to the American system.

Their interest in global stability thus gets invoked when instability abroad thwarts those goals. For example, in the depths of the Great Recession, President Obama urged the Europeans to do more stimulus, as their premature pivot to austerity had negative spillovers to the U.S. economy.

Going forward, there are two potential global trouble spots of this sort. First, and most pressing, the "global savings glut" that former Fed Chairman Ben Bernanke warned about a decade ago, wherein countries suppress internal investment/consumption in order to import demand from current account deficit countries, is still a drag on growth both here in the United States and in peripheral areas of the eurozone. The U.S. trade deficit has been stuck at a non-trivial 3 percent of GDP; that's been a constraint on growth, one noted by our Federal Reserve as a rationale for holding rates near zero.

Second, there's another recession out there somewhere, and unless policymakers learn the lesson that premature fiscal consolidation is terribly ill-advised, when it hits, our countercyclical arsenal will go untapped. This is particularly worrisome when you recognize that central banks are likely to be uncomfortably close to the zero lower bound (also known as the "liquidity trap") on the interest rates they control. There is a real danger that in the next recession, both monetary and fiscal stimulus will be off the table, the former due to prevailing low rates, the latter due to ideology over facts.

Reform the IMF. The global environment will be challenging.

DESMOND LACHMAN

Resident Fellow, American Enterprise Institute

On assuming office in January 2017, the next U.S. president is very likely to face the most challenging of international economic environments. This will make it imperative that the new president acts to reassert U.S. leadership of the global economic and financial system. In particular, bold U.S. action will be required to promote global macroeconomic policy coordination with a view to keeping international markets open and to preventing a further slide towards beggar-thy-neighbor currency adjustments. In addition, renewed efforts should be made to reform the International Monetary Fund to better equip it to properly fulfill its mandate and to make it more representative of the emerging market economies' increased importance.

Over the next year, it is all too likely that a number of factors will coincide to create a very troubled international economic environment that could constitute a major headwind to the U.S. economic recovery. The Chinese credit bubble must be expected to continue bursting, while the formerly rapidly growing emerging market economies must be expected to continue struggling with low international commodity prices and an overly indebted corporate sector. These conditions risk a renewed intensification of Europe's still-unresolved sovereign debt crisis and they could very well complicate Japan's ongoing battle with deflation.

In these challenging circumstances, a first priority of the new president must be to promote effective global macroeconomic policy coordination. Such an effort would be more effective were it to be done with a reduced group of the economically most relevant countries such as China, Germany, and Japan, rather than in the unwieldy setting of the Group of 20.

A striking weakness of the present international financial system is the lack of meaningful exchange rate rules that raise the real risk of a global currency war. It would be helpful if the new president were to provide international leadership towards putting in place clear rules of the game to limit the degree to which countries might use unorthodox monetary policies or other measures to deliberately weaken their currencies. In that context, consideration might be given to reviving former Treasury Secretary Tim Geithner's idea of targeted external current account balances.

In recent years, there has been a drift in the emerging market countries away from seeking multilateral solutions towards regional solutions to economic and financial problems. To arrest this unwelcome tendency, the new president should renew efforts to reform the IMF's governance structure to give the emerging market countries a greater voice commensurate with their increased economic importance. In this context, to make IMF reform more palatable to the U.S. Congress, the new president would be advised to push for an end to IMF "exceptional financing" and a return to the IMF's traditional role of being a catalytic lender that would limit the degree to which U.S. taxpayer money might be put at risk.

Shore up the Western alliance, militarily and economically.

ANDERS ÅSLUND
Senior Fellow, Atlantic Council

The big task of the next president will be to shore up the Western alliance, militarily and economically. Two big economic tasks come out on top: providing the long-promised U.S. financing for the International Monetary Fund, and promoting the Transatlantic Trade and Investment Partnership with the European Union.

The IMF has no competition as the most important global economic organization. It has clear rules, the largest financial means, and is the fastest to act. The IMF represents an elementary consensus of market economic views and it assists countries in financial crisis effectively. This is the sophisticated financial fire brigade we so badly need. Such an institution must be kept well-financed and politically legitimate. The reforms agreed by all the members in 2010 were designed to do both things and they need to be implemented. Unfortunately, the United States has held them back because the U.S. Congress has not provided the small funds needed to keep this excellent organization fully financed. Given that the funds provided to the IMF are counted as a part of the U.S. international currency reserves, the budget cost is minimal.

Presuming that the Trans-Pacific Partnership gets approved, the next big international agreement the United States can conclude is TTIP. This agreement can do many good things. The remaining small tariffs are no longer justified and they mainly hurt the poor, both in exporting and importing countries. A bigger issue is to move to commonly accepted technical standards so that they can no longer divide the Western markets. The United States has great benefits to gain from a freer market for services and digital products, and so does Europe where many countries suffer from the absence of these badly needed markets. A wide acceptance of investment-state dispute settlement will greatly improve the international rule of law and property rights.

Together with TPP, TTIP will help the West to come together and set standards for the world as a whole. Today the question is whether the West or the rest will set global standards, or whether there will be none. The World Trade Organization got stuck in the Doha Round. The best way to proceed with international economic cooperation appears to be through broad regional or plurilateral agreements after universal multilateral agreements have halted. If the United States does not take the lead, these things are not likely to happen.

Address the strong dollar and weak global economy.

JEFFREY R. SHAFER
Former Undersecretary for International Affairs, U.S. Treasury

One global financial issue will almost certainly preoccupy the next president and his international economic team: what to do about a strong dollar in a weak global economy, which is once again destroying U.S. jobs and businesses.

This has been a recurring problem for nearly fifty years. The imbalances that had built up under fixed exchange rates in the 1960s were gradually and painfully reversed in the 1970s, only to return with a vengeance with the Volcker disinflation and export-led growth policies elsewhere in the first half of the 1980s. Adjustment following the Plaza Accord brought another respite until the mid-1990s. Then, efforts in emerging markets to build reserves and once again pursue export-led growth after the Asia crisis boosted the dollar and accelerated U.S. deindustrialization. The U.S. current account deficit reached more than 6 percent of GDP while the subprime bubble helped to sustain U.S. jobs through investment in non-tradable houses. When the bubble burst and the financial crisis ensued, countries for a time had to look other than to the United States for demand, and adjustment took place.

Now the dollar is appreciating strongly, U.S. exports have stalled, and countries around the world are looking for external demand to make up for debt-constrained domestic demand. U.S. workers are threatened once again by international imbalances, not just with emerging markets but with industrial powerhouses such as Japan and Germany. The yen has fallen more than 30 percent and the euro more than 20 percent in recent years. China had receded as a trade threat with wages rising strongly and the currency appreciating, but there is a continuing risk of reversal as the authorities there seek to avoid a deep economic slowdown.

I have no simple solution to offer a presidential candidate or future Treasury secretary. Unilateral U.S. responses would cause deep damage to the international trading and finance system. Multilateral agreement on effective rules of the game has proved elusive for fifty years. It is not as simple as stopping currency manipulation. Large imbalances arise even when massive intervention and controls on capital inflows are absent. And the United States as the n+1st country in the international monetary system becomes the source of demand of last resort.

Efforts to put some symmetry into the adjustment process by establishing obligations on countries in surplus have failed. Other countries, not surprisingly, have resisted letting their policy freedom be constrained by international agreements with teeth. The United States has not been any more successful in bringing about adjustment by pressing others for growth driven by domestic demand and structural reform. The one exception was the G-7 Plaza agreement, the success of which is clear in the data for U.S. exchange rates and the current account balance in the ensuing decade. The reasons for its apparent success are more difficult to see given what the accord contained. It nevertheless merits careful study for lessons that could be applied. And focus on the problem, which is not going away, by academics and technocrats may produce new approaches.

I don't know what should be done. But it is clear that benign neglect will not be a viable policy for the next U.S. president.

Facing down China is key.

GREG MASTEL
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As is always the case, the next president will make policy on a long list of important economic issues. Many of the issues on that list, such as taxes and spending, are well understood even if consensus will always likely be elusive. But there are a range of economic issues facing the next president that are almost unknown outside of a small circle, yet they will also have a major impact. One of those issues (probably more than one) centers on China.

In 2001, the United States—indeed the world—took an economic gamble by allowing China to join the World Trade Organization. The prevailing wisdom articulated by many, notably President Bill Clinton, was that this would be enough to lure China into a market-based, freedom-loving new world.

In those heady days when a free and open China seemed just around the corner, the United States and other trading powers agreed to review their policies toward unfairly priced imports, usually known as antidumping policy/laws, by 2016 as part of China's WTO accession. This is critical because in many sectors, antidumping law is what prevents the economic power of the Chinese state from running over U.S. industries. China and its advocates would have the next president believe that China is guaranteed by the WTO to be treated as a market economy, which would greatly curb U.S. antidumping actions. Their reading of the WTO is simply incorrect.

More importantly, those advocates conveniently ignore the reality that reform in China has simply not lived up to the hopes of 2001. Beijing still keeps a very tight rein on dissent and, in fact, has diligently worked to expand its control of the internet and modern channels of speech. China has taken full advantage of relatively open western markets, but it has maintained state-owned industries with heavy subsidies, controlled imports, and retains tight control of its currency and foreign exchange.

It would be an exaggeration to say that nothing has changed in China, but it would be a much larger one to say that China has become a market economy. It would be a serious economic mistake to treat China as if it is a market economy when the instruments of state control of the economy are all still in place. This may not be the China of Chairman Mao, but it is still ruled by the Politburo of the Communist Party of China (yes, it still exists).

China would have the world accept its contorted view of reality on so many issues, from the events in Tiananmen Square to its territorial claims in the South China Sea. Accepting Beijing's revisionism is an error with far-reaching consequences. Facing down Beijing on this issue is one of the uncomfortable but critical issues confronting the next president.

Address these two problems: dismal productivity and income growth.

GARY CLYDE HUFBAUER
Reginald Jones Senior Fellow, Peterson Institute for International Economics

The biggest challenges facing the next president are dismal productivity and income growth. Economic failure fosters extreme political populism, illustrated by jingo nationalism from Donald Trump and Fabian socialism from Bernie Sanders. Extremists will not win the 2016 presidential contest, but another four years of poor economic performance will give them a better chance in 2020.

Government is not especially good at delivering the technological miracles—the likes of electricity, telephones, automobiles, radio and TV—that for decades propelled annual productivity growth in excess of 2 percent. DARPA can claim responsibility for birthing the internet, and Pentagon spending fostered commercial aircraft, but private firms will deliver the great majority of innovative ideas.

What government can do is build infrastructure and encourage private investment. It's no coincidence that two OECD countries with exemplary economic records over the past two decades—Australia and Canada—sharply improved their roads, bridges, highways, seaports, airports, and transmission lines. They also slashed their corporate tax rates. The United States and Europe lag far behind, not even maintaining infrastructure stocks inherited from the 1980s.

And the outstandingly bad U.S. tax system does its best to discourage corporate investment. These are problems the next president can address. At a time when long-term interest rates are near 3 percent, the president can mount a major public/private program with expedited permits—reminiscent of the Eisenhower interstate highway system—to renovate America's dilapidated infrastructure. The president can work with Congress to align U.S. corporate taxation with OECD norms, and thereby unleash a tremendous amount of private investment. These measures will move the needle back towards 2 percent productivity growth and, as a bonus, spark the sluggish U.S. job market.

Unwind the unwise global quantitative easing.

ARTHUR B. LAFFER
Founder and Chairman, Laffer Associates

The single biggest international financial problem is how to unwind the global quantitative easing central banks, here and abroad, have so unwisely followed. The huge expansion of central bank balance sheets in the United States, Japan, United Kingdom, China, and the European Union has raised the specter of central bank insolvency, as well as the potential for rapid inflation, *à la* the 1970s.

The quantitative easing policies of these central banks have pushed interest rates way below natural market levels, and thereby have depressed the supply of financial capital so critical to a housing or investment recovery. Without a housing recovery in the United States, for sure there can be no economic recovery; and without a U.S. recovery, it's hard to imagine a world recovery. With the almost decade-long housing recession, we in the United States have built a large backlog of new family formations, desperately in need of housing.

Once the recovery does come—and it will—interest rates will rise and pressure on banks to make loans will be unstoppable. Higher interest rates will put those central banks with inflated balance sheets at risk of being upside down, and rapid growth in demand for bank loans will greatly increase money multipliers. Threats of central bank insolvency and rapid money growth could be a deadly combination for global inflation and currency instability.

The way to unwind is not all that difficult if we find the global will to do it. In the U.S. case, two steps are needed. First, swap all Fed balance sheet assets with durations over two years with the Treasury, for an equal-valued set of assets laddered with maturities ranging from zero to two years (end of the solvency problem). And second, distribute all excess reserves held by the Fed back to member banks in proportion to each bank's holding of excess reserves until there are no more excess reserves (*voilà*, no future uncontrolled money growth). This solution, however, is unlikely to be implemented any time soon.

Address deficient global demand, reform the tax code, and restructure the financial sector.

RICHARD N. COOPER
Maurits C. Boas Professor of International Economics, Harvard University

The post-2016 president will have plenty on his plate with foreign and defense policy. In the economic and financial arena, I suggest three foci:

First, and most immediately, he should address deficient world demand, especially investment—sometimes labeled "secular stagnation," suggesting it is not merely transitory—by supporting a major capital increase for the World Bank and expressing greater enthusiasm for China's initiative in creating the Asian Infrastructure Investment Bank. The current period of exceptionally low long-term interest rates is the right time to make some long-term investments, both at home and abroad, in both hard and soft infrastructure (education and research).

Second, he should push comprehensive reform of the U.S. tax system, which can only be described as preposterous in its incidence and its tolerance for corporate tax avoidance and personal tax evasion. A serious start on the personal income tax could be made by challenging every congressman and senator to fill out his/her own annual tax return without outside assistance. Too many of them have no idea of the imposition the current system imposes on many taxpayers. The Internal Revenue Service should also be given a larger budget for enforcement. The creation of shell companies without reporting the true owners should be prohibited, and such companies should not be permitted to open bank accounts. The United States should intensify its pressure on all tax havens to report American owners of wealth held in them (including by shell companies and trusts). And it should prohibit and enforce blatant profit-shifting transfer pricing, perhaps in the end requiring allocation among countries of worldwide corporate profits taxes on the basis of destination of sales and perhaps other variables. Even more radically, perhaps the tax system should be altered to discourage the retention of earnings by inducing or compelling all corporations' earnings (above a certain size) to be distributed as dividends, where they can be taxed as such, thus requiring firms with large profits to go to the capital market for large investments instead of relying on captive funds.

And last, he should adopt a long-run strategy of breaking up financial firms into smaller, less complex entities, and adopt strict liability for managers for any violations of law that occur under their supervision, eliminating ignorance as an excuse. Hardly a week goes by without new charges of malfeasance against large financial firms, many post-dating the financial crisis. These firms are evidently too complex for effective guidance and supervision by top managers. Breaking up firms is challenging and should not be done in haste. But it should be a strategic objective. The Volcker Rule should be applied both vigorously and rigorously, and ultimately deposit banking should once again be separated from trading and investment banking. Potential competition from European banks, which themselves are in some trouble on similar grounds, should be no excuse for not proceeding.

Further the Dodd-Frank reforms.

DEAN BAKER
Co-Director, Center for Economic and Policy Research

It is highly unlikely that the United States will face another financial crisis in the near future; nonetheless, the next administration still has important work to do in the prevention category. The first main item should be to further the reforms put in place by Dodd-Frank.

There are three areas that raise concerns. First, the largest banks are almost certainly still too large to fail. It would be appropriate to either downsize the biggest banks, or tax them to balance the benefits of the implicit subsidy from "too big to fail" insurance.

The second area is to further constrain the activities of commercial banks with government-insured deposits. The Volcker Rule was a good first step. However, it is yet to be fully implemented. Ideally, we would restore a Glass-Steagall–type separation between commercial banks and investment banks, but even if that proves not to be politically feasible, there is more that can be done to limit the extent to which commercial banks and their holding companies get involved in speculative activity.

The third area is reform of the credit rating process for asset-backed securities. The Franken Amendment would have addressed the inherent conflict of interest in the issuer pay model, but the industry nixed it in committee. It would be good to see comparable legislation approved in the next administration.

The second main item concerns global stability. Multi-national financial bodies are not currently pursuing policies that support stability and growth, with the most obvious villain being the European Central Bank. Greece and other crisis countries are being needlessly held back by the failure of surplus countries like Germany to adequately boost their economies.

The only way that the peripheral countries will be able to return to a healthy growth path and near-full employment in the near-term future is if Germany runs policies that boost its inflation rate to the 3–5 percent range. It would be great if the international financial institutions were willing to make the same sorts of criticisms of Germany as they were of Greece. Germany's economic management has been far more damaging to the eurozone and world economies.

Finally, we need a clear policy of bubble control at the Fed. This should begin with efforts to attack bubbles by calling attention to them and presenting evidence of their existence, as Fed Chair Janet Yellen did last summer with reference to the bubbles in social media companies, biotech, and junk bonds. The testimony had the desired effect, as the immediate response was a sharp drop in the prices of all three types of assets.

It would be interesting to see if such warnings, backed up by data, could have this effect on an ongoing basis, since it is the easiest way to burst a bubble. If this proves inadequate, the Fed should be prepared to pursue regulatory measures to stop a bubble's growth. The most important thing to recognize is that financial crises will not pose serious economic threats in the absence of an asset bubble. And a burst bubble can devastate the economy even without a financial crisis.

Establish a new G-4.

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The most critical international economic task for the next president is to return America to its natural leadership role in a reorganized and effective steering committee for the global economy. For many years, the G-7 performed this role tolerably well. But the rise of China and other emerging market economies has shrunk the G-7's share of global GDP from 67 percent in 1985 to 46 percent in 2015. The G-20 was intended to take over this role, but it has proved lethargic and unwieldy. The G-7 lingers in the background.

I suggest a core group of four—the United States, the euro area, China, and Japan—with 61 percent of world GDP. Keeping the group small is key to making it effective. That will require forcing the Europeans to agree on a single representative for financial and structural issues (as they already have for monetary and trade issues). The recent proposal by the EU Commission for a single euro-area seat at the International Monetary Fund is a good signal.

The new G-4 should coordinate with a larger group similar to the G-20, but preferably with a representational structure. For example, Indonesia would represent the interests of South-East Asia and conduct outreach to countries in that region. Brazil and Mexico would do the same for Latin America, and so on. Obviously, some countries would take their representational duties more seriously than others, but we should not insist on perfection at the outset.

The most urgent issue to confront this new leadership team is getting domestically generated growth outside of the United States and avoiding a relapse into the old model of global growth supported by a rising U.S. trade deficit. In this regard, snubbing the new Asian Infrastructure Investment Bank is a mistake because funding infrastructure projects is one of the best tools we have for boosting domestic-led growth around the world. We need more AIIBs. U.S. engineering groups and equipment manufacturers are particularly well-placed to benefit from an infrastructure boom in the developing world.

The problem of currency manipulation—governments holding down their currencies through massive intervention to maintain export-led growth—is in remission this year as private capital flows out of the developing world. But this temporary respite is not likely to last long. During the next global downturn, the temptation to resort to this beggar-thy-neighbor policy will be hard to resist. Even if China does not return to its bad old ways, many smaller economies will feel free to do so unless the big countries agree on enforceable rules to stop it. Getting those rules in place should be a top priority for the next president.

Rediscover capitalism and, along the way, make changes to the Federal Reserve Act.

BERNARD CONNOLLY
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The overriding priority in economic affairs for the next U.S. president must be to halt the slide towards socialism and serfdom. Serfdom is the implication of the hard-faced, inhuman, implacably bigoted "Progressive" philosophy, in which the Great and the Good impose their moral values on everyone else via the coercive power of wealth and the State. A necessary—though not sufficient—condition for forestalling it is the restoration of capitalism, in which labor and capital are paid their marginal products in unrigged markets.

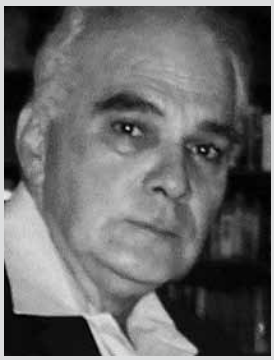
The most important market is that for time. Capital is stored-up productive capacity. It should be created in tandem with deferred *current* demand. Getting the relationship between demand and supply right not just now but in the future, when today's conditions will determine future demand and future supply, is crucial. That relationship has gone badly wrong over the past twenty years. It is in these circumstances that the Marxist view of capital as stored-up labor—in effect, as the expropriated fruits of labor, as theft—is seen by far too many as attractive.

The process of bastardizing capitalism feeds on itself. Thus, for instance, opposition to the Transatlantic Trade and Investment Partnership, a measure which in better conditions would be seen as adding to freedom as well as to prosperity, draws on fears, far from entirely unfounded, that it will entrench the power of large corporations and allow them to override democratic political decisions.

Many factors have contributed to this state of affairs, including President Bill Clinton's housing policy and President George W. Bush's acceptance of a Big Government, crony-capitalism regime. But monetary policy has been the most culpable of all, and behind that has been the self-serving academic macroeconomics industry, guilty of *déformation professionnelle* in ignoring both reason and evidence in order to promote a model more suited to providing career opportunities than to guiding policy.

A generation ago, leaders such as President Ronald Reagan and Prime Minister Margaret Thatcher could defer the slide towards serfdom. But the problems they confronted were, particularly in Thatcher's case, more obviously open to political reversal that those we face today. And in, for instance, defeating union power they had to make alliances—in Thatcher's case, with the pro-European *nomenklatura*—which have contributed to today's problems.

The degradation and potential dissolution of society itself and the intractable problem of monetary policy-induced intertemporal disequilibrium are now virtually incapable of resolution. And the power of a U.S. president even to attempt to resolve them is very limited. But any attempt in the economic field should concentrate on three areas. First, the president should try to change the Federal Reserve Act, not to prioritize the inflation objective but to eliminate it: central banks should be about safeguarding financial stability, not about inflation targets. Second, the president should accept that a monetary-policy "reset" might, paradoxically, require temporary nationalization of the financial sector in order to avoid a tremendous financial crisis. Third, the president should accept the obvious reality that monetary union in Europe is economically perverse and politically perverted.



Instability is inevitable. Appoint a Treasury secretary who wants a strong dollar.

CRITON M. ZOAKOS
President (1994-2014), Leto Research LLC

Rather than "bring stability," the first thing that the next American president must do is to accept the fact that it is no longer possible to bring stability to the global economy and may not even be desirable from the standpoint of U.S. national interest if stability is to be purchased at the price of low growth.

It was in the name of stability that the United States and the rest of the world responded to the 2007 crisis with policies that cut global GDP growth by half, from 5.7 percent in 2007 to 3.1 percent now.

The package of fiscal, monetary, and regulatory "stability" policies of the post-2007 period rewarded the failures of the incumbent economic establishment and protected it from the competitive challenges of new market entrants that would have emerged in the absence of these "stability" policies.

The price of stability has been stagnation, and this stagnation has in turn become the greatest threat to stability today. Stability policies have proven self-defeating. This is why it is no longer possible for the American president or for anybody else to "bring stability to the global system."

What the next American president must do is to secure for the United States the least cost and the most benefit from the growing global instability. In this he or she will be assisted greatly by two fortuitous circumstances: first, the main sources of global economic instability are outside of the United States, in China and the Germany-captive eurozone; second, U.S. dominance of the world's technological and military "high ground" is greater today than at any moment in the past, rendering the U.S. impervious to any threat save its own policy mistakes.

Both China and the Germany-captive eurozone have become the main sources of instability because they both failed to replace their export-driven economic models with models that depend on the development of their internal markets. A quick look at the evolution of global financial flows between 2007 and now suggests that none of the imbalances that triggered the last crisis have been remedied: Asia still funds U.S. debt to support its trade surpluses and European banks still borrow in American short-term money markets to purchase long-term dollar-denominated assets. Cross-border dollar-denominated debt is nearly $20 trillion, of which almost $10 trillion is owed by non-U.S., non-financial corporations.

While the United States remains the world's premier exporting power, it is the least export-dependent economy. Its domestic markets are the ultimate destination of China and Germany's export engines, U.S. dollar-denominated assets are the ultimate destination of choice for the global savings pool, and the dollar remains the international reserve currency of choice of 64 percent of global reserves—the same level as in 2008. In this context, by appointing a Treasury secretary who believes in a strong dollar, the next president would ensure that the United States would suffer the least and benefit the most from the coming instability.◆