“To What Extent is the US Following in Japan’s Footsteps?”
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The conventional wisdom of 1990, that the Japanese model “could do no wrong,” resulted from Japan’s strong economic performance in the 1980s. Similarly, the conventional wisdom of the year 2000, that the US model can do no wrong, was based on America’s strong economic performance in the 1990s. This view, too, may somehow fall by the wayside over the coming decade, especially if the macro policies of the last eight years are abandoned. The question is how.

Will the heights achieved by the Nasdaq at the turn of the millennium come to look foolish, with stock prices declining in the coming decade, as did Japanese asset prices in the early 1990s? Probability 90%

Will the US real economy slow down from the rapid growth rate of the Clinton years, as did Japan in the 1990s? Probability 80%

Will Republicans try to apply pro-cyclical fiscal policy, keeping taxes low when the economy is strong and raising them when the economy is weak, thereby exacerbating the business cycle – as did both the government of Japan and President George Bush (senior)? Probability 70%

Will the dollar decline in the coming decade, as did the yen from 1995 to 1998? Probability 60%

Will the tribulations of the 2000 presidential vote mark a turning point, after which the US political system will no longer be taken globally as always the ideal model of democracy? Probability 50%

Will American credibility as a global leader be undermined by a lack of willingness to participate in and contribute to multilateral initiatives? Probability 40%

Will excessive indebtedness of the boom years contribute to a recession, as it did in Japan? Probability 30%

Will the American economic model become tainted by the failure of variants in crisis-prone emerging markets, as did the Japanese model in the Asian crises of 1997-98? Probability 20%

Will the rapid US growth of the boom years turn out to have been less New Economy, and more illusion, like Japan’s bubble economy of the 1980s, e.g., attributable to unsustainably high levels of labor input (hours worked), requiring a corresponding period of below-trend growth to prevent inflation from accelerating? Probability 10%

Will American culture and the English language no longer dominate the world? Probability 0%