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Short Curriculum Vitae) Naoaki Okabe

Graduated from the School of Political Science and Economics, Waseda University in 1969. Joined the *Nihon Keizai Shimbun* that same year, and after serving in roles such as reporter in the economics section held successive posts as a correspondent in Brussels, head of the New York branch office, executive director of the editorial board, special executive director, and columnist. Has held his current post since 2012. His major works have included *A Leaderless World*, *A Primer to the Japanese Economy*, and *Reciprocity: The Political Dynamics of the Yen and Dollar*.

The New Reality Five Years After the Financial Crisis

It has been five years since the financial crisis precipitated by the collapse of Lehman Brothers. The “once-in-a-century” financial crisis (as former Chairman Greenspan of the Federal Reserve Board (FRB) called it) that shook the world economy ushered in a period of historical transformations. It has been marked by a major shift from West to East and from developed countries to newly emerging countries. It will be such a monumental shift as to make the end of the Cold War seem minor by comparison (to paraphrase former US Treasury Secretary Summers), yet it has been causing enormous friction. The United States’ aim to curtail its ultra-monetary easing has coincided with an acceleration of outflows of capital from the newly emerging countries that had achieved rapid growth. The Chinese economy, which sustained the global economy following the financial crisis caused by the collapse of Lehman Brothers, has also been faced with difficult situations in the form of slowing growth and the regulation of bubbles. The upheavals of these past five years appear to be giving rise to a new global reality.

Rainy Wall Street

That evening Wall Street was blanketed with rain due to the effects from a hurricane. It was September 12, 2008, just three days away from the bankruptcy of Lehman Brothers. I had finished my reporting on Wall Street and ran to a store looking to buy an umbrella. I had a ticket to the Yankees' game, and as I wondered if the rain would stop at this rate I held out my hand to hail a taxi. Among the people trying to take taxis there was some tension in the air and on the roads that humid weekend. Above all else it seemed as if the Federal Reserve Bank of New York, which stands close to Ground Zero, would not have much presence.

It was in this building that leaders from the US financial industry, including those from JPMorgan Chase & Co., Goldman Sachs Group, Inc., and others gathered at 6:00 PM at the request of Treasury Secretary Paulson. The bankruptcy of Lehman Brothers was imminent, as evidenced by its plunging share prices. The meeting was for them to discuss how they would handle this, but the view was that Treasury Secretary Paulson had already made up his mind.

The overriding principle of the US financial authorities was that Lehman Brothers would not be bailed out with taxpayer money. Unfortunately, during this once-in-a-century crisis the United States happened to be right in the middle of a presidential election, and President Bush, who was then in his second term, had become a lame duck president. The Republican Party is cautious about providing public support even under normal circumstances. Now they were afraid they would be criticized by people questioning why they had bailed out the major investment banks on Wall Street, which were unpopular among the public.

It would have been ideal if there were a convenient party to acquire the firm, but in the end no one with the clout of a JPMorgan Chase, which had just acquired Bear Stearns Companies, Inc. in spring of that year, appeared on the scene. Bank of America Corporation, which had been rumored as a possibility for acquiring the firm, pivoted and acquired Merrill Lynch instead, and the British bank Barclays also balked at acquiring the firm without public support from the United States.

The notion that Treasury Secretary Paulson, who formerly worked at Goldman Sachs, faltered on extending a public bailout to his former competitor Lehman Brothers is nothing more than a penetrating observation. However, when this is put together with the reporting on Wall Street from the time, one sees that US financial authorities had promptly made up their minds to liquidate Lehman Brothers, and had already initiated consultations with the financial authorities of other countries, such as Japan and European countries, over an international coalition to prepare for this.

The reason that the US financial authorities came to the decision that they did was because their reading of the situation was that the bankruptcy of Lehman Brothers would not lead to the ensuing financial crisis. Business with Lehman Brothers was virtually suspended as its share prices plunged, but their reading was that this would not touch off a chain-reaction crisis.

This was a major miscalculation. The world of finance has now attained a global reach, such that the bankruptcy of an enormous US investment bank would rock not only the US finance industry, but also the global economy. In fact, global markets started jumping at shadows and fell into a state of paralysis. This not only harmed finance, but also the actual economy.

The US financial authorities bear grave responsibility for causing the financial crisis. Even though they had learned from the lessons of the Japanese financial crisis to a considerable extent, the biggest problem was that they hesitated to inject taxpayer money and failed to uphold the overriding principle of "too big to fail."

Of course, this was also backed by monetary policies and the failure of financial oversight, which produced fertile soil for crises such as the subprime mortgage problem. The policy positions of successive generations of financial authority leaders such as Secretaries of the Treasury Rubin and Summers and Chairman Greenspan of the FRB (which could be described as "Wall Street-centric") must also be called into question.

From the Euro Crisis to a Crisis for Newly Emerging Countries

In actuality, it was British Prime Minister Brown that saved the US financial authorities from their blunder; as the claim could be made that the sober and low profile British prime minister played a leading role in overcoming the crisis. Without delay he hammered out a framework for overcoming the crisis that included injections of taxpayer money into major financial institutions, assurances of the interbank market, and bank deposit protection, in which he obtained the agreement of the European Union (EU) and the G7. This set in motion the US financial authorities, who had continued to waver over injecting taxpayer money. The decisions and actions of Prime Minister Brown, who had also had experience as treasury minister, deserve special mention in the history of finance.

The historical irony in this is that the chain-reaction of crises began in Europe first. The circle of weak euro zone countries known as the PIGS (Portugal, Ireland, Greece, and Spain) was also joined by Italy. This exposed the structural problem that even though the EU has a single monetary policy it has separate fiscal policies and bank oversight. Interest rates shot upwards on the national debts of the PIGS countries, which had been issued under the banner of the euro, and led to a chain reaction of debt crises and financial crises.

The euro zone has been reunified with the support of the International Monetary Fund (IMF) in order to prevent a crisis, and has been seeking a path out of its current situation by means of forming a banking union and issuing joint euro debt and so on. Yet the fact of the matter is that the austerity designed to break free of the crisis is creating a serious unemployment problem. Germany, which is the leading power in the euro zone, has not been all that forthcoming about supporting the problem countries, so as things stand the euro is being underpinned by the claim by President Draghi of the European Central Bank (ECB) that the ECB will do whatever it takes to overcome the euro crisis. For the time being it seems as if the euro zone has no chance of averting a recession.

The financial crisis that originated in the United States and the euro crisis have left the impression that the world has achieved a historical transformation. Despite the recessions in the economies of developed countries, growth has begun to stir in the newly emerging countries of the BRICs (Brazil, Russia, India, and China). China, which has surpassed Japan to emerge as the world's second largest economic power, in particular has played a role of supporting the global economy. At the Davos meeting and the summer Davos meeting Premier Wen Jiabao's proud demeanor in claiming that China had contributed to restoring the global economy felt compelling.

The economies of these newly emerging countries are now approaching a turning point. Their enormous potential for growth has been underpinned by financial power backed by the ultra-monetary easing of Japan, the United States, and Europe. However, the moment that Chairman Bernanke of the FRB announced that they would curtail their ultra-monetary easing within the year, capital began flowing out of newly emerging countries like Brazil and India, which caused their currencies to depreciate. It will be hard for them to escape from the "middle income trap" while they lack any special technical prowess of their own.

Cracks have even begun to appear in the Chinese economy that has sustained the global economy. As its growth is slowing down from double-digit growth, China is faced with difficult questions over how it intends to regulate bubbles. How will it bring the "shadow banking" sector that has suddenly proliferated in for a soft landing? It will be no easy feat to simultaneously achieve the disposal of bad debt and financial reforms. The "Liconomics" of Premier Li Keqiang strives for stable growth through reform, yet as the income divide widens the country is being pressed to make difficult policy maneuvers.

The Continuation of a "Leaderless World"

What makes the five years since the financial crisis historically noteworthy is that the pace of transformation in the era has come about in a whirlwind that has moved faster than ever before. The financial crisis vividly illustrates the fact that the "American age" has come to an end. It also laid bare the contradictions of the financial capitalism championed by the United States. With the euro zone in recession, it has been newly emerging countries like China that have taken the stage in place of the advanced

Western nations, but in this there was one major wall standing in their way.

Throughout this, the view has surfaced that the United States, which was the main culprit in causing the financial crisis, may once again be securing its role as a hegemon. It is on the cutting edge of information technology (IT) and finance, and is now able to avoid dependence on the Middle East for its energy due to the shale gas revolution. This will also serve as the basis from which it can revive the US manufacturing industry. This is an observation stating that the American age is making a comeback. Yet assuming that is the case, would this era reverse course after only a mere five years?

Yet it is already hard to conceive of the world once more reverting back to the former American age. Right now the focus is directed at the negative dimensions of the Chinese economy, yet the Chinese economy will likely continue along with a stable, somewhat high rate of growth for the time being even as it is beset by problems. The collapse of the euro and dissolution of the EU is inconceivable, and so Europe should demonstrate its reserve strength to the world economy in the form of soft power. If the Japanese economy is able to leverage Abenomics in order to break out of deflation then Japan too can once again turn back to supporting the global economy after an extended absence.

As for the new reality from five years after the financial crisis, despite its alignment this “leaderless world” may continue.

It was likely because of the American age that a new round (of multilateral trade negotiations) came into being for the General Agreement on Tariffs and Trade (GATT), which was the forerunner to the World Trade Organization (WTO). No progress is currently being made on a new round, but we have entered an era of the Trans-Pacific Partnership (TPP), the Regional Comprehensive Economic Partnership (RCEP), the US-EU free trade agreement, and the Japan-EU Economic Partnership Agreement (Mega FTA). This is symbolic of a “multipolar leaderless world.”

Each party will shoulder significant roles and responsibilities in a leaderless world, and Japan will also have to take on an important role. For if it does not, turmoil and a series of crises will continue to occur around the world.