Currency Manipulation, Tax Competition and National Interdependence.

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Introduction

- My Carrier in Economics
- Two country versions of various policy issues
- Tax Competition in Corporate Taxes--- A Game theoretic Approach (QJE, 1966)
- Currency Wars (JPE, 1976), followed by Sachs in BPEA, and
- Recent work in progress with Sakuragawa, Kamihigashi and Horii tries to explain “global imbalances,” namely persistent foreign debt of the United States.

Introduction (continued)

- Economists have not got excited about the first two approaches as much as I wished, but these subjects and approaches are now one of the main focus of international policy issues.

- I will take questions about “Abenomics” in the discussion section.

Currency Manipulation

- Eichengreen and Sachs (CJPE, BPEA in 1984) showed that the critics of competitive devaluation are warranted neither in theory nor history.
- Hamada and Okada (JIIE, 2009) showed laissez faire interactions of monetary policy are Pareto efficient, in a simple setting where monetary policy could pick a combination of price increase and unemployment on a short run Phillips curve.
- Please see on this issue my editorial piece in Project Syndiacate distributed.

II. Tax Competitions

- In contrast, tax competitions leads to an undesirable situation into the world economy.
- As studied by Peggy Richman (Musgrave), the double tax (avoiding) treaty may restore market efficiency in a proper setting (Hamada, 1966). Geneva recently elaborates this line of research.
- It is difficult to model this type of game assuming that tax authorities try to maximize national income. Some motives of maximizing tax revenue must be hidden, because otherwise countries would subsidize rather than tax domestic corporations.

Corporate Taxes are highest in the US and Japan

- US in some states, Japan charge the highest corporate taxes (local taxes included).
- In both countries, special exemptions abound. They create non-transparent and most likely inefficient economic performance. Moreover, they are the hotbed of corruption involving government officials and the private sector.
- The lessons from the game theory analysis are clear. Only a wide-stride reduction of corporate taxes, and not of minute one with gradual few percent, will attract foreign investors into Japan and retain the domestic investors in Japan.

The Paradox of Corporate Tax is exactly the Right Argument

- The paradox of corporate tax by eg. Motohige Itoh is not a “paradox” at all but the right argument.

Global Analysis of “Global Imbalances”

- A Graph of the US indebtedness.
- In Hamada and Iwata (EER 1986), actually Kazumasa Iwata calibrated a picture of future asset and debt patterns of the world.
- I agreed with Paul Krugman, in hindsight wrongly, who commented that that kind of exercise is nonsense. You will see, however, Iwata’s calculation fits the progress in reality.

Differences in Time Preference and the Model of Perpetual Youth By Blanchard

- Buiter introduced differences in time preference to a Diamond Alternative Generation Model.
- Obstfeld and Rogoff formulated a Standard model of capital movements along I. Fisher's tradition with identical time discount across countries.
- This standard model predict the convergence of international debt to GDP to zero in the long run, a prediction always betrayed at least in the case of the US.
- As Obstfeld rightly argued, difference in time discount rate would explode the standard model by all the wealth owned by a more patient nation in the long run.
- We use the Blanchard model to forecast the future indebtedness. Even a small difference in rates of time preference would predict values of negative current accounts and substantial indebtedness of a less patient nation.