

# Markets aren't in lather over next Fed chairman

By Justin Wolfers  
Bloomberg

U.S. President Barack Obama has said that choosing the next chairman of the Federal Reserve Board is "definitely

one of the most important economic decisions that I'll make in the remainder of my presidency." The financial media appear to agree, devoting hundreds of column inches to speculation. Senators, overseas pundits and even Bette Midler have chimed in.

But there's one group that considers the decision largely inconsequential: investors in financial markets. At least, that's my initial reading of a revealing natural experiment.

Three weeks ago, Janet Yellen, the current vice chairman of the Fed, was the heavily backed favorite to get the nod. On July 23, Irish betting site Paddy Power listed her odds at 1-4, which means that a \$4 bet would only return a \$1 profit (above the original stake). Bettors would only take odds like that if they really believed Yellen's nomination to be extremely likely. By contrast, Larry Summers, the president's former top economic adviser, was ranked the third-most-likely candidate at 11-2 (behind Roger Ferguson, a former Fed vice chairman, at 5-1).

Now, Summers is a solid 1-2 favorite and Yellen is perceived as the only real alternative at 2-1. (Ferguson and all others are now seen as remote possibilities.)

The only thing that has changed in the past three weeks is that details of a debate within the White House have become public.

This episode presents the sort of natural experiment that whets the appetite of economists. It's a bit like having the chance to toss out potential options for a new Fed chief, then seeing how the financial markets respond. Instead of actually installing Summers or Yellen, we did so probabilistically, thanks to a White House leak.

This experiment gives us the opportunity to

compare the assessments of forward-looking investors three weeks ago, when they expected a Yellen Fed for the next four years, with today, when they anticipate a Summers-led economy.

Since Washington Post reporter and Bloomberg View columnist Ezra Klein broke the news on July 23 that Summers is increasingly viewed as the leading candidate in the White House, the betting odds for him as the Yellen alternative tumbled from 11-2 to 5-2 on July 30. Yellen remained the favorite, though, at 2-7.

A day later, on July 31, Obama defended Summers in a closed-door meeting of congressional Democrats. That led the Summers boom to further intensify in betting markets, and by Aug. 7, his odds had continued to firm. He is now the clear betting favorite.

How have financial markets responded to the (probabilistic) change? Let's start with inflation expectations. After all, the inflation rate is the economic indicator for which a Fed chief is most likely to be held accountable. Moreover, much of the discussion has revolved around who is the bigger "dove"—meaning, who is likely to be less focused on keeping inflation low.

Strikingly, inflation expectations have barely shifted, even as the fortunes of Summers and Yellen have reversed. That is, the market appears to expect similar inflation outcomes, on average, under either one.

The movements in expected inflation, moreover, are tiny compared with those generated by even small shifts in policy, such as various statements through late June by the current chairman, Ben Bernanke, about how the Fed would taper its asset purchases.

If we had futures markets in gross domestic product or the unemployment rate, we could evaluate whether markets see differences in those variables, too. Unfortunately, we don't. But a very rough indicator of the future of the economy (or at least a part of it) is captured by stock indexes, and those, too, have barely shifted. The exchange rate has also been remarkably stable.

Of course, other factors could be coming into play. Perhaps traders aren't paying at-

tention to the Summers-Yellen race. That seems unlikely, based on even a cursory reading of the financial news. Perhaps a vigorous market response was obscured by other economic news that had an offsetting effect on bond yields.

This also seems unlikely given that the past few weeks have been fairly tranquil, with little competing financial news.

All told, the most likely interpretation is that the markets judge the Summers-vs.-Yellen race as a nonevent. If so, that would represent a break with history; it is unusual for financial markets to shrug off changes in central-bank leadership.

Research by Ken Kuttner and Adam Posen shows that global bond, stock and foreign-exchange markets tend to respond rather sharply to news about the appointment of new central-bank chiefs.

Bond markets were apprehensive prior to the announcement by President George W. Bush of Bernanke as the new Fed chief in 2005. Worries over the possibility of a weak Fed appointment likely reflected Bush's efforts to name the woefully underqualified Harriet Miers, the White House counsel, to the U.S. Supreme Court.

So why is this time different? The answer may lie in the contours of this particular race.

The president is thought to be considering Summers, Yellen and Donald Kohn, also a former Fed vice chairman. All are outstanding economists with well-established leadership credentials. The important decision Obama made was in picking his shortlist, and at this point, there are no bad choices. The similarities among Kohn, Summers and Yellen overwhelm any differences.

Who will it be? I don't know. But I'm willing to wager that financial markets are right to bet that whoever it is will continue to deliver low and stable inflation.

Wolfers is a senior fellow of the Brookings Institution, a professor of economics and public policy at the University of Michigan and a Bloomberg View columnist.

# NSA reforms? What reforms?

By Eugene Robinson

WASHINGTON—U.S. President Barack Obama's message about the government's massive electronic surveillance programs came through loud and clear: Get over it.

The president used more soothing words in his pre-vacation news conference Friday, but that was the gist. With perhaps the application of a fig leaf here and a sheen of legalistic mumbo jumbo there, the snooping will continue. Unless, of course, we demand that it end.

The modest reforms Obama proposed do not begin to address the fundamental question of whether we want the National Security Agency to log all of our phone calls and



read at least some of our emails, relying on secret judicial orders from a secret court for permission. The president indicated he is willing to discuss how all this is done—but not whether.

"It's not enough for me, as president, to have confidence in these programs. The American people need to have confidence in them as well," Obama said. But if this is truly what he believes, he should have kicked off this confidence-building debate years ago, long before former NSA analyst Edward Snowden blew the whistle.

Snowden's disclosures do look increasingly like whistle-blowing, by the way, rather than espionage or treason. If administration officials really welcome the discussion we are now having, shouldn't they thank Snowden rather than label him an enemy of the state?

As part of its public relations campaign, the administration released a 22-page white paper outlining its legal rationale for collecting and keeping a detailed log of all our domestic phone calls. The document depends on novel definitions of words whose meaning, I always thought, was fairly clear.

Section 215 of the Patriot Act gives the secret Foreign Intelligence Surveillance Court the authority to order businesses to hand over "any tangible things" needed for an investigation into international terrorism. "Metadata" about our phone calls is classified as a tangible thing. In the digital age, I suppose that's an understandable stretch.

But those tangible things must be "relevant to an authorized investigation" to obtain foreign intelligence or protect against terrorism.

The administration—with the secret intelligence court's blessing—essentially argues that "relevant" can be construed to mean its exact opposite.

Only an infinitesimal fraction of the billions of phone call records being stored in the NSA's computers will actually have anything to do with terrorism or espionage. The government argues that it must have the entire haystack to find these few needles. Therefore, every piece of hay—your lunchtime call to your spouse, say, or your evening chat with an old friend—is relevant to an investigation.

Which investigation might that be? On this question, the administration argues there is no need to be specific. "An investigation" is taken to mean, roughly, any investigation designed to prevent terrorist attacks.

Obviously, we all share this aim. But we also share an appreciation of the Fourth Amendment, which prohibits searches without suspicion. Without informing us, the judges of the secret intelligence court have construed the amendment to permit the collection of vast, unprecedented amounts of private information about individuals who are not, the government admits, under any suspicion.

The administration white paper says we shouldn't worry because this reasoning would not apply, say, to medical records or library records. But we have no way of knowing what other encroachments on the Bill of Rights the intelligence court might have blessed because the court's rulings are classified.

Proceedings before the court are not adversarial; only the government side is presented. Obama acknowledged that this "may tilt it too far in favor of security, may not pay enough attention to liberty." He proposed changing the law so that "privacy advocates" could argue the other side in some cases—an idea that already has advocates on Capitol Hill.

What real difference would that make, though, if we are still denied the right to know about secret court rulings that redefine and abridge our constitutional rights? I'll believe Obama is serious about reforming the intelligence court when he calls for all its interpretations of the law—without details of specific orders that would tip off terrorists—to be made public.

And I'll believe Congress is serious when it clarifies the Patriot Act and other laws to spell out that the Constitution still applies. The NSA's capability to obliterate privacy is rampaging ahead. The law desperately needs to catch up.

(c) 2013 Washington Post Writers Group

# Independence Day of India

# Century of Indo-Japanese economic relationship

By Ryuko Hira  
President of the Indian Chamber of Commerce and Industry (Tokyo) and K.S.H. Indian Merchants Association of Yokohama

In a show of pan-Asian solidarity, Sei Arai and Teiichi Sugita formed the Society for Asian Revival (Koh-A Kai) in 1880. Wary of seeing Japan drifting toward Westernization, they argued that even though Japan had modernized itself based on a Western model, it should remain an Asian power in accordance with where the nation lay geographically and historically. The society even envisaged a federation consisting of Annam (present-day Vietnam), Burma, India, Korea and Southeast Asian countries subjugated or threatened by Britain, France and Russia.

News of the formation of a national organization by the Indian people (the Indian National Congress) and the launching of a campaign against the British lent support to their pro-Asian activities. Celebrating the news, "Nihonjin," a biweekly magazine founded in 1888 by Setsurei Miyake and Shigetaga Shiga, ran an article envisioning India as "a major new independent Asian country."

The renewed interest in India resulted in the establishment of Sanskrit, Buddhist and Indian philosophy courses and departments at Japanese universities. But in the absence of direct connections with Indian scholars and academic institutions, the Japanese not only had to rely on Western scholarship;

but also study in European academic centers under the guidance of European scholars. Direct contact between the people of India and Japan began only with the arrival of art historian Tenshin Okakura in Bengal in 1901.

Indian politics were in a state of turmoil at the time of Okakura's visit. A wave of despair and anger had engulfed the Indian people after their appeals for a representative government were turned down by the colonial masters. Expressing solidarity with the Indian people, Okakura wrote a book titled "The Awakening of Japan" (1904), in which he made a fervent appeal to Indian youth to unite and work for the revival of Asia.

A prominent statesman Shigenobu Okuma set up a study circle (*Indo Gakkai*) on the campus of Waseda University to promote Indian studies and stimulate interest in Indian affairs. Despite the constraints of an Anglo-Japanese alliance, Okuma openly sympathized with the Indian cause and in several of his speeches urged the British to grant self-governance to India.

The renewal of the Anglo-Japanese alliance in 1907 had added coverage of India, thus making Japan a guardian of British interests in India and East Asia. This infuriated Shumei Okawa, who graduated with a degree in Indian philosophy from Tokyo Imperial University's Department of Philosophy. After studying India's classical age, Okawa's inquisitive mind turned to contemporary India. The idealized image of India was shattered in 1913 when he read Henry Cotton's "New India." In 1916, Okawa wrote several articles exposing the exploitative nature of British rule and denounced the presence of Great Britain as a source of suffering in Asia. He railed

against the continuance of the Anglo-Japanese alliance, which he saw as a means of deterring the Japanese from fostering closer ties with India. Therefore, he pleaded with the Japanese government to cultivate friendly relations with the Indians and aid them in their struggle for freedom.

After the founding of the Indian National Congress in 1885, the struggle for independence gained momentum, and national leaders began seeking ways and means to cast off the yoke of British imperialism. Captivated by Japan's remarkable progress, several Indian representatives from divergent backgrounds visited Japan to uncover the secrets of its success. Among these early visitors were P.C. Moolozomdar and Swami Vivekananda. Accompanying Vivekananda to Japan was Jamsheji Nusserwanji Tata, the head of the Tata business group. Tata was visiting Japan to meet Eiichi Shibusawa, the shipping magnate behind Nippon Yusen Kaisha (NYK) to explore the feasibility of establishing direct trade links with Japan. India's burgeoning textile and spinning industries had generated great interest among Japanese businessmen. In 1888, Tsuneki Sano had visited to India from Osaka with a team of engineers to learn about spinning technology. In 1892, 50 percent of raw cotton used by Japanese mills came from India but for transportation they had to depend on European vessels. Despite tough competition from European firms, which monopolized trade and commerce on the route, both Tata and Shibusawa succeeded in launching shipping services with their own ships to transport cotton goods. The Japanese government encouraged

this Indo-Japanese venture by providing financial subsidies. The commencement of direct shipping not only stimulated bilateral trade with branches in Kobe and Yokohama, it also led to the establishment of Japanese consulates in Bombay in 1894 and in Calcutta in 1907. Even though Tata later withdrew from the joint venture with Japan, NYK continued its shipping services aside from raw cotton, also transporting commodities such as pig iron, teak, jute, gunny bags, fertilizers from India, and items such as glassware, matches, umbrella stretchers and handles from Japan. The base cargo carried from Bombay was raw cotton, and that from Calcutta was pig iron. Hence those routes were known for years as the Cotton Route and the Iron Route. Encouraged by the trading prospects, many of Japan's leading business conglomerates (*zaibatsu*), such as Mitsui and Nichimen, forged links with Indian partners and opened offices in Bombay and Calcutta.

Engineer-statesman Mokshagundam Visvesvaraya visited Japan in 1898 and was impressed by the Japanese people's receptivity to new ideas and the zeal for self-improvement. The educational decree in Japan, Visvesvaraya noted, was that henceforth "there shall be no community with an illiterate family, nor a family with an illiterate person," and praised the government for its efforts in promoting such reforms. He contrasted Japan's case with India, where educational institutions were restricted to only a small segment of the population. The aim of the British was primarily to train loyal servants of the Empire and only secondarily to enlighten the masses. Visvesvaraya discovered

in Japan a working model for India and was convinced that with education and planned economic development, India could similarly rise to Japan's level.

The Indian people's interest in Japan was further piqued after its victory in the Russo-Japanese War of 1904-1905. A small Asian country's ability to defeat a gigantic European power was hailed across the continent as it shattered the myth of the West's military invincibility. The event electrified Indians and other Asians, for it showed that any country, even outside the West, could rise to a higher status if it did what was necessary. Indian leaders such as Dadabhai Naoroji, Gopal Krishna Gokhale, Lala Lajpat Rai and Bal Gangadhar Tilak exhorted their countrymen to learn lessons from Japan and to imbibe the virtues of patriotism and spirit of sacrifice. Despite his faith in the superiority of spiritual forces over material forces, Rabindranath Tagore found occasion to praise Japan and celebrated its victory with an evening bonfire amid cheers of "bansai." Tagore composed three poems, one of them as follows:

"Wearing saffron robes, the Masters of religion (dharma) Went to your country to teach.

Today we come to your door as disciples, To learn the teachings of action (karma)."

Mohandas Karamchand Gandhi, who was at that time in South Africa, attributed Japan's victory to the spirit of self-respect and self-reliance. Emphasizing the need to cultivate the spirit of self-respect, he said, "Having remained in bondage for a long time like parrots, we cannot understand what honor and freedom are." And to the 16-year-old Jawaharlal Nehru, then studying at Dover, the event struck "like a thunderbolt." Recalling the impact 40 years later, he wrote in his autobiography:

"Japanese victories stirred up my enthusiasm... I invested in a large number of books on Japan and tried to read some of them... Nationalistic ideas filled my mind. I mused of Indian freedom and Asiatic freedom from the thralldom of Europe...dreamt... I would fight for India."

Inspired by Japan's daring feat, Indian leaders intensified the demand for *Swaraj* (self-rule), and as the struggle entered the *Swadeshi* phase, attempts were made to displace British imports by increasing the indigenous production of such goods from British factories. Indian manufacturers saw Japan as a source of new equipment and machines for increasing the supply of home-made goods and displace the British competition. Funds were raised to send students to Japan to learn industrial arts and trades so that they could contribute to the production of simple goods like pencils, glass, watches, cardboard, cane boxes, and textiles. The popular mood was one of hope that Indian nationalism might eventually prevail over British imperialism if India were to follow the Japanese model and become self-reliant.

It has taken a hundred years for India's self-reliance to near its goal of becoming a developed nation. The India-Japan commercial partnership is rich with possibilities that will widely contribute to enduring prosperity in Asia and beyond. The Indian Chamber of Commerce and Industry (Tokyo) has served the Indian economic agenda for nine decades. On behalf of all members of ICCI, I convey our appreciation to all who have contributed to India's cause. I am grateful to the Japan News and its readers.

This special supplement is produced by the Japan News advertising desk.