

EU-Japan forum  
Fiscal Sustainability and Growth  
in Japan and the EU

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# The European Continuous & Complex Crises

- 2007~ : banking crisis
- 2008~ : balance of payments (BoP) crisis in  
Middle & Eastern Europe
- 2010~ : sovereign debt crisis
- 2011~ : resurgence of banking crisis

# The Essence of European Debt Crisis

## (1)

Lack of BoP discipline of the euro members, unlike EMS  
→ uncontrolled deterioration of fiscal balance which is  
a part of current account of BoP

;Europeans obviously have been overlooking the  
difference in terms of BoP discipline for each member  
between the intra-regional fixed exchange rate regime  
(EMS) and a unified currency (euro).

# The Essence of European Debt Crisis

## (2)

### Dressing of Fiscal Statistics

(revelation of dressing)

Portugal in 2004; undiscovered for more than 5 years?

Greece in 2009; undiscovered for about 10 years?

It is very difficult to discover dressing of fiscal statistics, unlike dressing of foreign reserve statistics.

# The Essence of European Debt Crisis

## (3)

The worst combination of undisciplined BoP and dressing of fiscal statistics

→ extreme worsening of the fiscal situation

(current account as a % of GDP)

	<u>Greece</u>	<u>Portugal</u>
1989-1998 (average)	−2.36	−2.00
1999-2008 (average)	−8.67	−9.61

# The Essence of European Debt Crisis

## (4)

### Exorbitantly Large Scale of Rescue Package for Greece

-approximately 390 billion euro including hair-cut by private creditors

### Current Situation of the of Greek Debt Crisis

insolvency rather than illiquidity

→ But, the current European strategy is still rescheduling & new money.

# Solutions and Crisis Prevention Measures for the European Sovereign Debt Crisis (1)

## Short-term Solutions

partial debt forgiveness by official creditors

← right lesson from the debt crisis in 1980s

Sep. 1985 : the Baker Initiative → not worked at all

Sep. 1988 : the Miyazawa Initiative

Mar. 1989 : the Brady Initiative → worked very well

# Solutions and Crisis Prevention Measures for the European Sovereign Debt Crisis (2)

1. Capping of current account deficit or net external borrowing requirements (NEBR) as a % of GDP for each member, and its inclusion in SGP as a binding measure : 3% or 4% of GDP?
2. Efficient measures for prevention of statistical dressing by members
3. Very strict prevention measures rather than excessively strict austerity policies after the crisis



# Japan' Growth Strategy (1)

- Growth strategy is always medium & long-term, not short-term.
- The roles of fiscal and monetary policy for ST economic recovery are very limited, due to fiscal constraint and virtually zero interest rates.
- Monetarist policy such as quantitative monetary easing for ST economic recovery is completely wrong.

# Japan' Growth Strategy (2)

## MLT Growth Strategy

1. Promotion of innovations of various kinds
2. Policies for raising birth rate itself as a measure to confront the trend fewer children
3. Policies for more investment in education
4. Positive employment policies centering on job training, etc.