Expert: Europe can learn from Japan's lost decades

By Aleksi Mustonen

Japan, which experienced a banking crisis in the 1990s, has been suffering from a recession for decades.

Europe can learn a lot about the lost decades of Japan, especially the constraints on financial and monetary policy, says the dean of the Asian Development Bank Institute, Naoyuki Yoshino.

According to Mr. Yoshino, the crisis in Japan has shown that, in addition to sound fiscal and monetary policy, significant structural reforms are needed.

Many economists believe that monetary policy can solve all economic problems, but only the working population will benefit from monetary and fiscal policies. For example, pensioners are excluded, Mr. Yoshino told the news agency Startel in an interview.

Japan initially lowered interest rates to zero and then embarked on quantitative recovery. Now, the rates are negative, but these actions have not benefited the older population. Retirement is based on social security and pensions that are unaffected by monetary policy. At the same time, retirees resort to previously acquired assets and interest rates, so negative rates have a negative impact on the income of older people, he says.

Also, the weakening efficiency of white-collar workers in industrial sectors caused nonmonetary problems when Japan became a services-based society. According to Mr. Yoshino, solutions should be sought through changing economic structures. For example, the aging of the population should be handled by raising the retirement age, and the efficiency problems by linking wages to productivity.

The International Monetary Fund criticized in its report last Monday the slow pace of structural reforms in Japan.

Prime Minister Shinzō Abe’s economic program aims to reverse the economic downturn by limiting the amount of overtime to improve efficiency, expanding childcare opportunities to involve women in the workforce, and equalizing pay differentials in similar jobs, among other policies.

Mr. Yoshino says that the government has also made progress in improving the ability to raise venture capital, but admits that reforms have been slow.
The population is also aging in Europe

Europe this year has seen cautious signs of growth after our own crisis, but the European Central Bank (ECB) has noted that the development of inflation is still largely linked to its revitalization program.

According to Mr. Yoshino, the ECB has presented good solutions for the recession with the tools available, but structural reforms are equally needed in European economies. Monetary and fiscal policy cannot solve all the problems, he says, with particular reference to aging populations in northern Europe.

Young people consume more than pensioners. When the older population grows, consumption will decrease and prices will fall, resulting in deflation. When Europe ages, there will be problems here similar to those in Japan, Mr. Yoshino says.

He notes that this can be avoided if pensioners have their own income and do not have to live fully on social support.

The ECB must understand that its influence is gradually diminishing as the population ages. Changing the structure of the national economy is very important. The textbooks do not tell us this, but the aging population in Japan demonstrates it.

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