Zhichao Zhang: Schnabl’s paper on Japanese lessons for the European crisis is informative and insightful. The paper carefully examines the origins of the crises, crisis triggers, and consequences of crisis therapies in both Japan and Europe. It then draws lessons from the Japanese experience in the spirit of Hayek (1929, 1944). The paper maintains that the Japanese case shows that, in the face of crisis, the Keynesian stimulus would lead to the malfunctioning of the market mechanism. This is evidenced in the hysteresis of the low-interest rate and high government debt environment, the erosion of the allocation and signalling of the interest rate, the gradual quasi-nationalization of financial institutions, and gradual real income losses. Given that Europe has taken a similar path in its policy response to the crisis, the paper indicates that Europe may suffer similar consequences that Japan has experienced in recent decades.

Unlike other papers discussing similar themes, the discourse of this paper takes a unique perspective to cast a big question mark on the whole crisis therapy in Japan and by implication a question mark on Europe as well. But this wholesale approach may miss taking into consideration some critically important local conditions that affect the formulation and implementation of particular crisis management policies. For example, in Southern Europe, as we have witnessed in recent years, the Hayek-type policy prescription in the form of stringent austerity, rather than expansive monetary and fiscal policies, is likely to meet strong social resistance. At the end of the day, some kind of political compromise inevitably has to be taken. In many cases, it is not that the policy is the best in theoretical terms but the possible acceptance of the public that shapes the policy process. So, the feasibility of the economic policy for the country in question has to be considered when taking lessons from Japan for Europe.

The time factor is another dimension needs to be considered in evaluating the Japanese lesson for Europe. The author correctly points out that Keynesian stimulus programs take time to produce their effects, if any. In reality, this applies to any possible Hayek-inspired crisis therapy as well. No one would seriously believe that the harsh economic adjustment required to deal with the crisis could take place overnight and its effects would instantaneously restore the economy to equilibrium. Taking the time dimension into
consideration, the Hayek approach to crisis management is unlikely to be a quick fix and shortcut to successful economic adjustment. This needs to be highlighted in discussions on the lessons of Japan for European crisis management.

The approach that this paper takes may potentially miss the opportunity of having a richer analysis of the crisis policies in both Japan and Europe. The logical emphasis of the paper is put on disputing with the underlying strategy that is currently in place. This strategy relies predominantly on the Keynesian therapy to stimulate the economy in the face of the crisis and recession. As such, the paper is heavily stacked toward showing similarities between Japan and Europe—because in so doing the paper can logically give warning shots that the Japanese fate is likely to occur to Europe as well, since Europe has taken a similar path. Given the logic of this argument, the paper pays less attention to dissimilarities between Japan and the European Monetary Union in their policy responses to the crisis. Although it is meaningful to compare the two economies with a view to finding similarities of their policy patterns, contrasting the two economies to reveal differences in their policy practices could also be useful. For example, the Japanese exchange rate policy has been quite eventful in recent years, whereas the euro zone countries are faced with a situation where the common currency means individual euro zone countries would not be able to use the exchange rate as a policy tool. To find out whether absence of this policy tool matters or not in the crisis management may better our understanding of the economic significance of the common currency.

Another example of a possible richer analysis concerns the credit crunch in Japan. It is well known that asset portfolios of Japanese banks have tilted toward government bonds and less toward lending to firms. The paper interprets this phenomenon as a credit crunch and largely attributes it to the contributing effect of the low (and almost zero) interest rate policy. Given this, the paper maintains that the credit crunch has to be seen as a crowding out of credit to the private sector by credit to the public sector, which exposes the deficiency of the Keynesian therapy as a crisis trigger as well as a consequence of the crisis remedy. In short, this effect reflects one of the undesirable consequences of Keynesian stimulus programs. Other influences, however, which are not necessarily associated with the Keynesian recipe, may also provide a plausible interpretation. For example, the substantial shifts in Japanese banks’ asset allocation from lending to the private sector to buying government bonds may be a result of their endogenous decisions regarding the asset allocation under the risk constraint. Changes in technology growth or other economic circumstances can affect the tightness of such risk constraint, hence inducing banks to change their asset portfolio choice. In this light, it may be an overstatement to call such portfolio rebalancing as the crowding out effect. Furthermore, in Europe, the credit crunch is limited to the crisis countries despite the existence of a low interest rate environment that is common for all European countries. This implies that the zero interest rate policy is not necessarily a decisive factor causing the shift of investment in the
private sector to the government sector. In conclusion, although the Keynesian stimulus programs are not without their problems and the Japanese experience is extremely valuable, it seems that at this stage more data and analysis are desired for instituting a radical change to the regime of crisis management both in Japan and Europe.

References