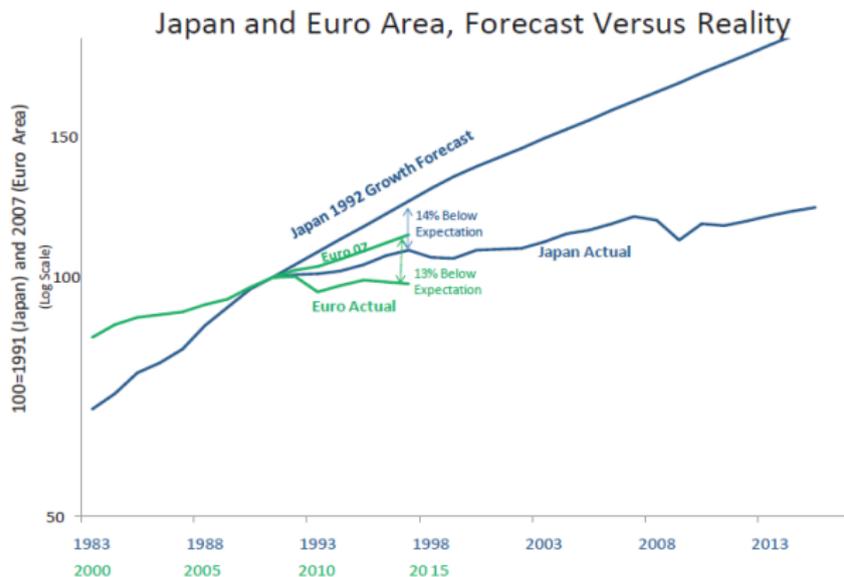


# Secular Stagnation in Europe and Japan: What policy lessons to draw?

Xavier Ragot, OFCE et PSE-CNRS

Bruegel, Kobe University Conference

# Slow growth



Source Summers in Teulings and Baldwin (2014)

Brutal revision of growth prospects

# Secular stagnation

Mix of **nominal/real** analysis and **demand/supply** side economics

1. Exogeneous negative trend in productivity (Gordon)
2. Demand side problem (ZLB) :
  - 2.1 too high the real interest rate compared to the natural one (Laubach and Williams 2003; Laubach 2015).
  - 2.2 too high a return on money (Buiter, Baharami 2014; Ragot 2014)

What is the market failures?

Lack of nominal adjustment at the macro-side (Mehrotra and Eggertson, 2014 + Summers 2015):

1. Downward nominal wage rigidity (Schmidt-Grohe and Uribe, 2015)
2. ZLB : we cannot tax money

Implications: Excess savings/under consumption

We are back to fixed-priced equilibria (Barro-Grossman 1971; Malinvaud, Benassy) : Michaillat-Saez (2015), Korinek and Simsek (2015).

- ▶ If lowering the return on saving is needed :
  - ▶ Inflation.
- ▶ Low real interest rate may not be enough (Precautionary saving : Households and firms would save at very negative interest rate, see Challe-Matheron-Rubio Ramirez-Ragot(2015).
  - ▶ Fiscal policy : Government is the investor/consumer in last resort : Juncker Plan (Draghi speech at Jackson Hall). Debate about the Fiscal multiplier (IMF, WEO 2014; Chap. 4)

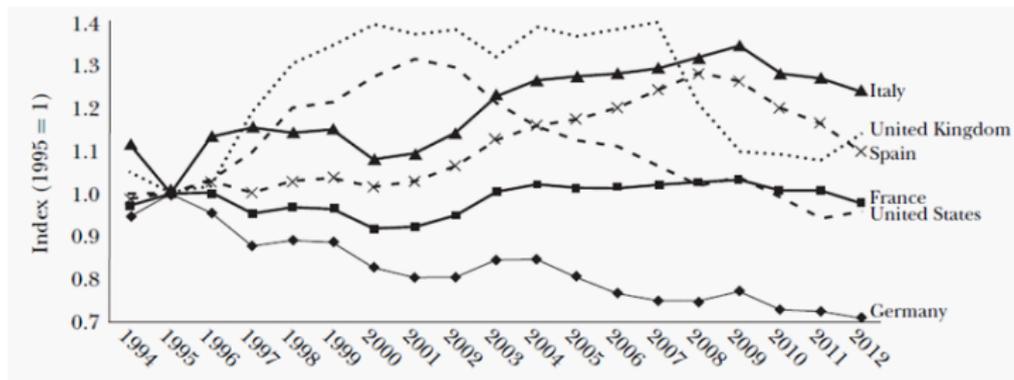
We should do both. Let me insist on inflation

# Why is inflation not under control? The labor market

What is the nominal anchor?

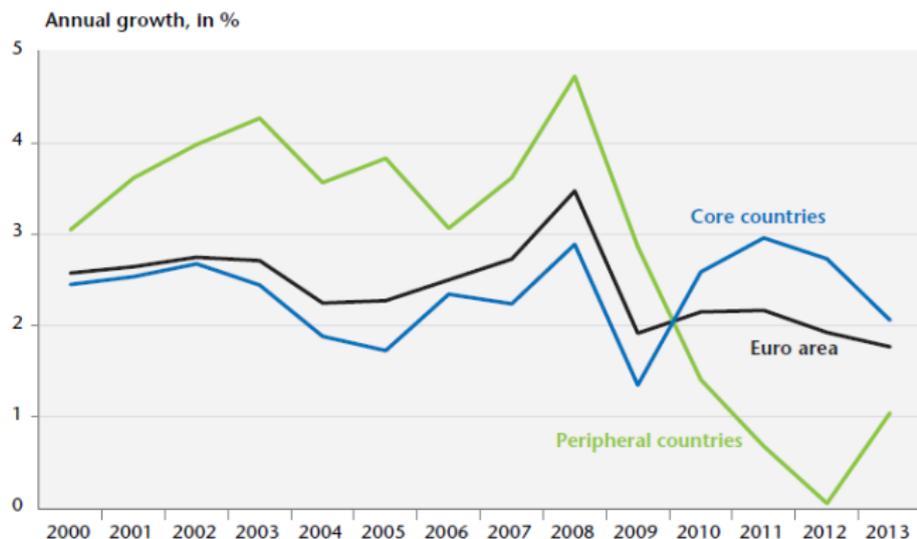
1. Monetarist : Quantity of money (base) : formidable failure (Japan + Volcker period example)
2. Inflation expectations (Woodford 2003; Forward guidance):  
expectations were anchored, until recently.
3. Economic activity (goods market : phillips-curve type of argument)
4. Labor market: nominal wage (Shimer 2005 puzzle; Hall 2005)

# The problem



Source : Dustman et Al (JEP, 2014)

# The solution?

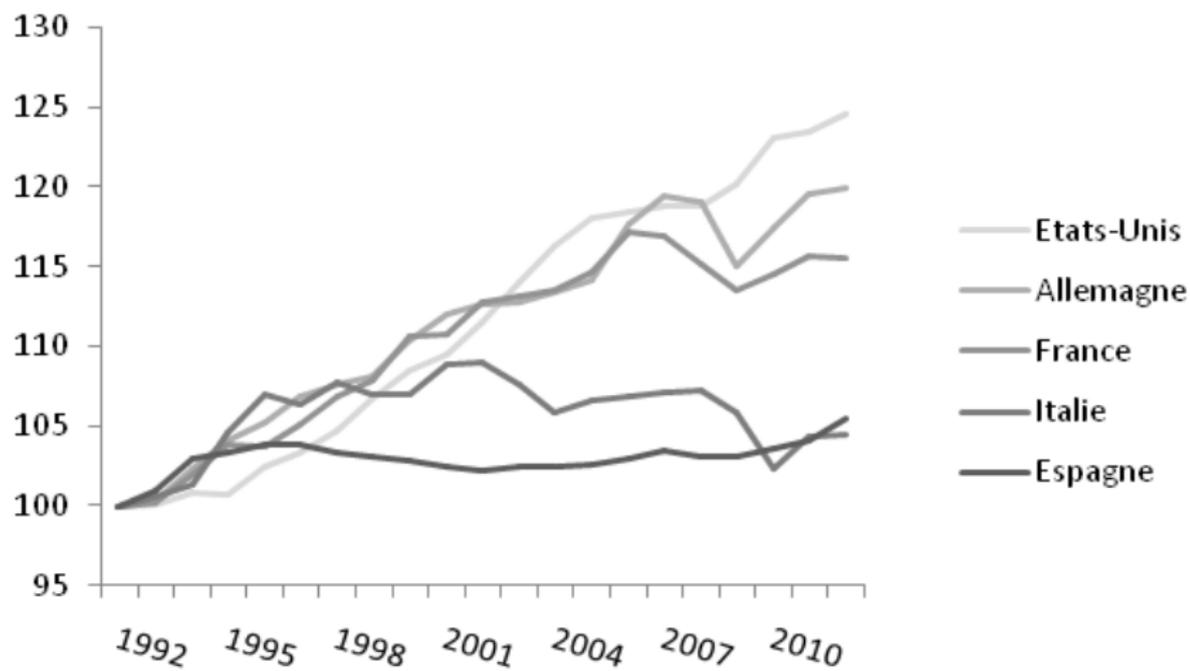


Note: peripheral countries group includes Spain, Italy, Portugal and Greece. Core countries group includes France, Germany, Belgium, Netherlands, Austria and Finland. Within a group, national evolutions are weighted according to their respective nominal GDP.

Sources: Ameco, IAGS calculations.

## Nominal compensation per employee

# TFP...



In %

	NIIP target (% GDP)	REER adjustment	VA price adjustment
AUT	0.5	+14.9	+26.6
BEL	45.8	-16.1	-6.0
FIN	15.8	-14.3	-8.6
FRA	-17.0	-4.5	+2.7
DEU	48.4	+21.8	+26.1
GRC	-50.0	-13.7	-6.9
IRL	-50.0	+5.6	+9.6
ITA	-29.5	+5.8	+12.3
NLD	46.3	+19.5	+25.0
PRT	-50.0	-3.2	+5.4
ESP	-50.0	+2.9	+9.7

If Greece is to reach a NIIP of -50% of GDP in 20 years from now, it must achieve a real depreciation of 13.7%. This can be obtained by decreasing its VA prices by 6.9% (assuming that the other EA countries also adjust their VA prices by the prescribed amounts and that prices outside the EA are unchanged).

Source: IAGS calculations

# Key issues

- ▶ Coordinate fiscal stance in Europe (Past mistakes; but OK now)
- ▶ Coordinate nominal wage adjustment (Five president report 2015; Authority for competitiveness)
- ▶ Juncker plan (I am a bit pessimistic)
- ▶ Tax money for people to spend it: go negative and pass a law to forbid massive cash holdings.