



# Too early for fiscal austerity

## Overview

The October observed that global liquidity was flowing again, appetite for the risk was back and deflation fears were progressively disappearing. Learning from the financial crisis, the emerging economies attempt to control the large inflow of foreign capital while the developed economies start to discuss policy tightening to defend preemptively against inflation and potential asset bubbles. The central banks of developed economies are about to receive more power to deal with the problem of "the too big too fail" banking institutions. In that context of sustainable growth promotion, the governments of the developed economies started to discuss to tackle the soaring public debt, though it remains a consensus that it is too early to exit quantitative easing monetary policy.

## Focus: Too early for fiscal austerity

The developed economies including the US, EU and UK started to discuss exit fiscal stimulus this October. Is it timing for fiscal austerity?

We believe that there is great danger of a premature exit strategy of stimulating fiscal policy in a context of crisis. The Japan case of 1990s has proven that interrupting prematurely government support could penalize significantly a weakened economy and lead to a long lasting deflation. The end of the "Cash for Clunkers Program" in the US, the interruption of the stimulus programs in Europe, and the termination of the tax credit for first-time house buyers in the US, have already conducted to a slowdown of economic activities and a deterioration of economic confidence. The developed economies are recovering but they remain fragile.

At the same time, however, given the recent marked increase in public debt, these countries have to propose credible exit strategies of stimulating fiscal packages. They have indeed to restore the confidence of investors, tackle the problem of debt sustainability and avoid the drawbacks linked to crowding out effects on private investment.

The developed countries are therefore facing a dilemma. We believe that the solution lies in implementing new public program aiming at supporting growth-oriented investment such as new energy, infrastructures, industry, and R&D projects on one hand, and on the other hand, it should be coupled with austerity measures on consumption-oriented spending. After economy stabilized, the authorities of the developed countries have to put fostering growth potential as their priority.

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