

Turning Japanese

The absence of leadership in the West is frightening—and also rather familiar



the brinkmanship in America over the debt ceiling have presented investors with an unattractive choice: should you buy the currency that may default, or the one that could disintegrate?

In the early days of the economic crisis the West's leaders did a reasonable job of clearing up a mess that was only partly of their making. Now the politicians have become the problem. In both America and Europe, they are exhibiting the sort of behaviour that could turn a downturn into stagnation. The West's leaders are not willing to make tough choices; and everybody—the markets, the leaders of the emerging world, the banks, even the voters—knows it. It is a mark of how low expectations have sunk that the euro zone's half-rescue of Greece on July 21st was greeted with relief. As *The Economist* went to press, it still was not clear on what terms America's debt limit would be raised, and for how long. Even if the current crises abate or are averted, the real danger persists: that the West's political system cannot take the difficult decisions needed to recover from a crisis and prosper in the years ahead.

The world has seen this before. Two decades ago, Japan's economic bubble popped; since then its leaders have procrastinated and postured. The years of political paralysis have done Japan more harm than the economic excesses of the 1980s. Its economy has barely grown and its regional influence has withered. As a proportion of GDP, its gross public debt is the highest in the world, twice America's and nearly twice Italy's. If something similar were to happen to its fellow democracies in Europe and America, the consequences would be far larger. No wonder China's autocrats, flush with cash and an (only partly deserved) reputation for getting things done, feel as if the future is on their side.

Yes, you Kan, if you carry on like this

Though both about debt, the arguments in Europe and America have very different origins. The euro crisis was brought on by investors with genuine worries about the solvency of several euro-zone countries. By contrast the stand-off in Washington is a political creation, thrust upon initially incredulous investors (see page 25). Increasing America's overdraft beyond \$14.3 trillion should have been relatively simple. But Republican congressmen, furious about big government, have recklessly used it as a political tool to embarrass Barack Obama.

The similarity between the European and American dramas lies in the protagonists' refusal to face reality. European politicians, led by Angela Merkel, have gone to absurd lengths to avoid admitting two truths: that Greece is bust; and that north Europeans (and Mrs Merkel's thrifty Germans in particular) will end up footing a good part of the bill, either by transferring money to the south or by bailing out their own banks.

They have failed to undertake a serious restructuring: the current rescue package reduces Greece's debt, but not by enough to give it a genuine chance of recovery (see page 65). As a result, Greece, and maybe other peripheral European countries too, will need another bail-out sooner or later. Just as in Japan, politicians have failed to make the structural labour- and product-market reforms essential to spurring growth. If this deal spawns a fiscal union within Europe, as it may well, that will not be because Mrs Merkel and her peers took a bold, strategic and transparent decision to create one, but because they ran away from more immediate forms of pain (see page 47).

America's debt debate seems still more *kabuki*-like. Its fiscal problem is not now—it should be spending to boost recovery—but in the medium term. Its absurdly complicated tax system raises very little, and the ageing of its baby-boomers will push its vast entitlement programmes towards bankruptcy. Mr Obama set up a commission to examine this issue and until recently completely ignored its sensible conclusions. The president also stuck too long to the fiction that the deficit can be plugged by taxing the rich more: he even wasted part of a national broadcast this week bashing the wealthy, though the Democrats had already withdrawn proposals for such rises.

Yet Mr Obama and his party seem a model of fiscal statesmanship compared with their Republican opponents. Once upon a time the American right led the world when it came to rethinking government; now it is an intellectual pygmy. The House Republicans could not even get their budget sums right, so the vote had to be delayed. A desire to curb Leviathan is admirable, but the tea-partiers live in a fantasy world in which the deficit can be reduced without any tax increases: even Mr Obama's attempts to remove loopholes in the tax code drive the zealots into paroxysms of outrage.

In both Europe and America electorates seem to be turning inward. There is the same division between "ins" and "outs" that has plagued Japan. In Europe one set of middle-class workers is desperate to hang on to protections and privileges: millions of others are stuck in unprotected temporary jobs or are unemployed. In both Europe and America well-connected public-sector unions obstruct progress. And then there is the greatest (and also the least sustainable) division of all: between the old, clinging tightly to entitlements they claim to have earned, and the young who will somehow have to pay for all this.

Is that Mount Fuji I see?

Sometimes crises beget bold leadership. Not, unfortunately, now. Japan has mostly been led by a string of weak consensus-seekers. For all their talents, both Mr Obama and Mrs Merkel are better at following public opinion than leading it.

The problem lies not just in the personalities involved, but also in the political structures. Japan's dysfunctional politics were rooted in its one-party system: petty factionalism has survived both the Liberal Democratic Party's resounding defeat in 2009 and the recent tsunami (see page 37). In America's Congress the moderate centre—conservative Democrats and liberal Republicans—has collapsed, in part because partisan ••

• redistricting has handed over power to the extremes. In Europe national politicians, answerable to their own electorates, are struggling to confront continent-wide problems.

Autocrats need not sneer at the troubles of Western democracies. The problems the latter face would tax any government; and, as the Asian financial crisis a decade ago showed, dictatorships are often worse at distributing pain. Moreover, Western politics is less broken than many allege. Since 2009 Congress has passed a huge stimulus and the health-care bill, both controversial yet also evidence that the legislature can get things done. For all their petty foolishness, the Republicans are bringing issues like tax reform and entitlements into the national debate. Outside the euro zone—in Britain, and in the Bal-

tic republics, for instance—politicians have implemented reforms and austerity programmes with admirable speed.

Our views on what the West should do will be painfully familiar to readers. Europe's politicians need to implement not just a serious restructuring of the peripheral countries' debts but also a serious reform of their economies, to clean out cronyism, corruption and all the inefficiencies that hold back their growth. America's Democrats need to accept entitlement cuts and Republicans higher taxes. Independent commissions should set electoral boundaries. And so on.

Japan's politicians had umpteen chances to change course; and the longer they avoided doing so, the harder it became. Their peers in the West should heed that example. •

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