

UDK 338.011

**COMPARISON OF MACROECONOMIC DEVELOPMENT
OF THE EU AND JAPAN IN LAST TWO DECADES***

I. NEDOMLELOVÁ

(Department of Economics, Faculty of Economics,
Technical University of Liberec, Czech Republic)
E-mail: office@msta.ac.ru

The article deals with comparison of macroeconomic development of the two important economic centres between 1990 and 2009. European Union, an economic union influenced by economic integration, and Japan, which appears to be out of this phenomenon. Macroeconomic comparing and synchronizing business cycle is accomplished on the basic analysis of the gross domestic product growth and its development. The rate of unemployment and inflation and the other monitored macroeconomic indicators. The article was written in support of grant project GA ČR 402/09/0592 called “The development of economic theory in the context of economic integration and globalization”.

* The article was written in support of grant project GA ČR 402/09/0592.

Keywords: the European Union, Japan, real product growth rate, rate of inflation, rate of unemployment, convergence criteria, deflationary spiral, liquidity trap.

The beginning of the 90s was in token of world recession. It first appeared in 1991 in the USA. Later it hit also the countries in European Union (European Economic Community - EEC) and Japan. The recession hit the monitored centres fully in 1993 [3].

The reason for GDP decrease in EU countries (by 0.3 per cent) was the decrease of aggregate demand, particularly investment. Restrictive monetary policy evocated by German reunification in EEC conduced to this development. This embodied fast economic growth and rapid inflation increase [4]. The EU countries managed to start economic growth in 1994. The GDP growth rate varied between 1.7 per cent (in 1996) to 3 per cent (in 1998 and 1999).

The Japanese economy developed during the 90s less satisfactory compared to EU countries. The years 1994 to 1996 sig-

nified a slight recovery. In 1997, the economic growth started to slow down and in 1998 Japan fell into the second recession since the 90s. This inauspicious development in Japan was caused by processes which started in the period of so called "Bubble economy" [3]. It was provoked by oversized credits on immobility, land and commercial instruments purchases. The markets passed through conjuncture and the prices were rising. The increase in credits and prices stopped at the beginning of the 90s. A decline in prices of assets followed, financial insolvency increased and banks were congested with bad and dubious debts and shares of doubtful value. The Japanese central bank contributed to this development, because it turned to a more strict monetary policy and interest rate increased as its target was to prevent further growth [1].

Table 1

| | | | | | | | | | | |
|--|------|------|------|------|------|------|------|------|------|------|
| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
| EU | 3.0 | 1.9 | 1.2 | -0.3 | 2.8 | 2.6 | 1.7 | 2.7 | 3.0 | 3.0 |
| Japan | 5.6 | 3.3 | 0.8 | 0.2 | 0.9 | 1.9 | 2.6 | 1.6 | -2.0 | -0.1 |
| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
| EU | 3.9 | 1.9 | 1.2 | 1.2 | 2.5 | 2.0 | 3.1 | 2.9 | 0.8 | -4.2 |
| Japan | 2.9 | 0.2 | 0.3 | 1.4 | 2.7 | 1.9 | 2.0 | 2.4 | -1.2 | -5.2 |
| Resource: Economic Survey of Europe. Geneva: UNECE, 2005, No. 2 [online]. [cit. 2010-05-20]. Available at WWW: < http://www.unece.org/ead/pub/052/052statapp.pdf >. Author's adjustment. | | | | | | | | | | |
| Eurostat, Statistics, 2010 [online]. [cit. 2010-05-20]. Available at WWW: < http://nui.epp.eurostat.ec.europa.eu/nui/show.do >. Author's adjustment. | | | | | | | | | | |
| Author's note: 1990 – 2003 EU-15; 2004 – 2006 EU-25; 2007 – 2009 EU-27. | | | | | | | | | | |

The development of gross domestic product growth rate in EU countries and Japan from 1990 to 2009 is tabularly shown in table 1.

From 2001 to 2003 the European economy noticed a slow down in growth. The GDP growth rate in 2001 decreased compared to 2000 by 2 percentage points and in the following year by further 0.7 percentage points. The main reason for this development was a low domestic demand, particularly low private consumption and investment activity. The EU economy felt the consequences of American financial crisis already in 2008 when the GDP growth was

only 0.8 per cent what is more it decreased in 2009 by 4.2 per cent.

The Japanese economy entered in a further recession development. The GDP growth rate was only 0.2 per cent in 2001 and 0.3 per cent in 2002. American financial crisis appeared in Japan in 2008 deeper than in the EU countries. The GDP growth reached negative accruelements (-1.2 per cent) and they became more significant in the next year (-5.2 per cent).

The unemployment reflected the development of GDP growth rate in two monitored decades in EU countries as well as Japan (see table 2).

Table 2

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|-------|------|------|------|------|------|------|------|------|------|------|
| EU | 7.3 | 7.4 | 8.7 | 10.1 | 10.5 | 10.1 | 10.1 | 9.9 | 9.3 | 8.5 |
| Japan | 2.1 | 2.1 | 2.2 | 2.5 | 2.9 | 3.1 | 3.4 | 3.4 | 4.1 | 4.7 |
| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
| EU | 7.7 | 7.2 | 7.6 | 8.0 | 9.1 | 8.9 | 8.2 | 7.1 | 7.0 | 8.9 |
| Japan | 4.7 | 5.0 | 5.4 | 5.3 | 4.7 | 4.4 | 4.1 | 3.9 | 4.0 | 5.1 |

Resource: Economic Survey of Europe. Geneva: UNECE, 2005, No. 2 [online]. [cit. 2010-05-20]. Available at WWW: <<http://www.unece.org/ead/pub/052/052statapp.pdf>>. Author's adjustment..

Resource: Eurostat, Statistics, 2010 [online]. [cit. 2010-05-20]. Available at WWW: <<http://nui.epp.eurostat.ec.europa.eu/nui/show.do>>. Author's adjustment.

Author's note: 1990 – 2003 EU-15; 2004 – 2006 EU-25; 2007 – 2009 EU-27.

The unemployment rate in the EU grew steadily from 1990 to 1994 when it reached 10.5 per cent. The indicator was decreasing in following years until the end of millennium. The unemployment rate was 8.5 per cent in 1999. The economic development in the EU was since the second half of the 90s significantly influenced by the process of forming the economic and monetary union.

The unemployment rate in Japan was growing during the 90s. It was 2.1 per cent in 1990 and 4.7 per cent nine years later in 1999. Compared to the EU unemployment rate is regarded relative low even though there was a continuous rise in the 90s.

The first four years of the 21st century, the unemployment rate was below 8 per cent. In 2004, it increased to 9.1 per cent but it started to decrease in the following years until 2008. This trend reflected the increase in GDP growth rate between 2004 and 2007. In connection with the economic recession the unemployment rate increased in 2009 by 1.9 per cent to 8.9 per cent.

The unemployment rate in Japan also corresponds to the GDP growth rate development. Since 2003, when the economic growth recovered, the unemployment rate proved a positive development. Between 2003 and 2007 it decreased steadily. In 2007, it decreased to 3.9 per cent which was the lowest rate in previous 10 years. The consumption, investment, and production grew in this period. Japanese companies were made to reduce the number of employees as a result of the economic crisis. This resulted in the growth of unemployment rate (from 4 per cent in 2008 to 5.1 per cent in 2009). Compared to

the EU is the Japanese unemployment on a relatively low level.

The high long term unemployment rate is for the EU a serious macroeconomic issue. The European internal market is connected with free labour mobility and does not lead to a gradual convergence of unemployment rate. The cross-border labour mobility is currently low due to language and psychological barriers and other obstacles. The employment policy remains in competence of member states, EU institution play an additional and coordinating role [4, p. 178].

The inflation rate in EU during the 90s of the twentieth century was decreasing. The reason for this development was a decreasing aggregate demand in the first recession period and above mentioned restrictive monetary policy of the EEC. The decrease in the inflation rate was supported by the countries which were trying to comply with the convergence criteria to enter the European Monetary Union (EMU). In 1991, the rate of inflation was 5.0 per cent, in 1995, it decreased to 3.0 per cent and in 1999, it only reached 1.3 per cent.

The anti-inflation measurements of Japanese central bank in connection with bubble boom lead to a decrease in inflation rate. In 1991, it reached 3.3 per cent, in 1993, it dropped to 1.3 per cent and in 1995, there was a deflation (- 0.1 per cent). The cause of the deflation development was an insufficient aggregate demand and a production capacity surplus. The central bank reacted with lowering the interest rate to 0.5 per cent. This interest rate was kept until 2000. Although the inflation rate rose slightly, in 1997, it reached 1.8 per cent, but in 1999 it got back to minus values (- 0.3 per cent).

The inflation rate in the EU during 2000 and 2008 ranked between 2.2 and 2.6 per cent with exception of 2007 when it rose to 3.0 per cent. This stable development was caused by monetary policy of the European Central Bank (ECB) which followed the inflation target 2 per cent. In 2008, the unemployment rose as a result of decreasing aggregate demand, the consumer prices dropped and the inflation rate decreased (0.8 per cent).

Deflation development was typical for the Japanese economy of the first decade of the 21st century. The cause of deflationary spiral and relatively low economic growth rates was the state which is known as liquidity trap in

economic literature. The inflation first turned positive in 1999 and in 2006 (0.2 per cent) and then in 2007 (0.1 per cent) and 2008 (1.4 per cent). The cause of this slight growth was the growth in aggregate demand. In 2001, the central bank decreased the interest rate to 0.1 per cent and kept it on this level until 2006 when it rose to 0.4 per cent and in 2007, it increased to 0.75 per cent. In 2008 and 2009, the interest rate was decreased again to 0.3 per cent. In 2009, the Japanese economy fell into recession and the inflation rate again got to negative figures (-1.4 per cent). The development of inflation rate in EU and Japan is recorded in table 3.

Table 3

| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|-------|------|------|------|------|------|------|------|------|------|------|
| EU | 5.4 | 5.0 | 4.4 | 3.5 | 3.0 | 3.0 | 2.5 | 2.1 | 1.7 | 1.3 |
| Japan | 3.1 | 3.3 | 1.7 | 1.3 | 0.7 | -0.1 | 0.1 | 1.8 | 0.7 | -0.3 |
| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
| EU | 2.3 | 2.4 | 2.1 | 2.2 | 2.5 | 2.4 | 2.2 | 3.0 | 2.6 | 0.8 |
| Japan | -0.7 | -0.8 | -0.9 | -0.2 | 0.0 | -0.3 | 0.2 | 0.1 | 1.4 | -1.4 |

Resource: Economic Survey of Europe. Geneva: UNECE, 2005, No. 2 [online]. [cit. 2010-05-21]. Available at WWW: <<http://www.unece.org/ead/pub/052/052statapp.pdf>>.
 OECD Statistics, 2010 [online]. [cit. 2010-05-21]. Available at WWW: <<http://stats.oecd.org/index.aspx>>.
 World Economic Outlook. Washington: IMF, October 2009 [online]. [cit. 2010-05-21]. Available at WWW: <<http://www.imf.org/external/pubs/ft/weo/2009/02/weodata/weoselagr.aspx>>. Author's adjustment.
 Author's note: 1990 – 2003 EU-15; 2004 – 2006 EU-25; 2007 – 2009 EU-27.

To conclude we can claim that the relatively positive development in the EU can be ascribed to the preparation of the member states on complying with the convergence criteria and the attempts of ECB to keep the target of stable price level. The high unemployment and a lower GDP growth rate is a difficulty in the EU which is caused e.g. by a high tax rate in member states. On the contrary the Japanese economy suffered more recessions than the EU between 1990 and 2009. It coped with the “bubble disruption” on the assets markets, the crisis of financial system, liquidity trap, and deflationary spiral and there was an unemployment increase on the labour market.

BIBLIOGRAPHY

1. *Cihelková E.*, aj. Světová ekonomika – regiony a integrace. 1. vyd. Praha: Grada Publishing, 2002, 244 s. ISBN 80-247-0193-6
2. *Fárek J.* Ekonomika Japonska: strukturálními reformami k překonání stagnace. Mezinárodní politika. 2006, roč. 30, č. 3, s. 8. ISSN 0543-7962.
3. *Holub A. a kol.* Metamorfóza světové ekonomiky na sklonku 20. století a její výhled. Institut integrace ČR do evropské a světové ekonomiky při VŠE Praha. 2001. Available at WWW: <<http://nb.vse.cz/icre/books/sb-015/01.pdf>>
4. *Kunešová H., Cihelková E.*, aj. Světová ekonomika: nové jevy a perspektivy. 2. vyd. Praha: C. H. Beck, 2006. 319 s. ISBN 80-7179-455-4.

Recommended by the editorial board. Received 03.06.11.