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**DSCG**

**SESSION 2011**

# UE6 – ÉPREUVE ORALE D'ÉCONOMIE SE DÉROULANT PARTIELLEMENT EN ANGLAIS

**Document autorisé : aucun sauf ceux qui sont fournis avec le sujet.**

**Préparation de l'épreuve : 2 heures.**
**Durée de l'épreuve : 1 heure maximum (exposé : 20 minutes maximum ; entretien en français : 20 minutes maximum ; entretien en anglais : 20 minutes maximum).**

**Coefficient : 1**

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## SUJET

**Pour relancer la croissance économique, existe-t-il un moyen efficace de réduire la dette ?**

**Annexe** : *Handle with care. The economist JULY 9$^{TH}$-15$^{TH}$ 2011.*

# DOCUMENT

**Handle with care**

(...). Debt can be reduced in several ways. It can be paid off with the help of higher thrift. Its burden can be reduced through higher inflation or faster growth. Or it can be defaulted on. In practice, rich countries seem to be using different combinations of these approaches.

In America, where overall debts levels have fallen fastest, a lot of the reduction in household debt has been thanks to mortgage defaults and write-downs. In Britain, where there have been virtually no mortgage write-downs, relatively high inflation has pushed down the overall debt burden. Spain, in contrast, has seen virtually no reduction in its debt load , despite fiscal austerity, partly because that very austerity has contributed to weak growth and low inflation which have kept down nominal GDP. Tough rules on mortgages have made it hard to reduce un payable household debt.

What can be learnt from these various approaches ? It is still early days, but four lessons stand out.

The first is that in some extreme cases, when a large debt reduction is needed orderly write-downs are necessary. The foreclosures on American mortgages have been severe, but they mean that household debt is likely to shrink to manageable level faster than in, say, Britain, where low interest rates on variable mortgages and a lot of "forebearance" by banks have kept defaults artificially low. At the sovereign level the same logic should apply to hopelessly bankrupt Greece : it needs a debt write-down.

Second, nominal growth is essential to bring down the weigh of debt. It is hard to ease the debt burden in a stagnant economy with low inflation. That suggests the pace of public-sector austerity, where possible, needs to be calibrated to the scale of private deleveraging. America's government, for instance, needs a medium term plan for deficit reduction, but cutting back spending viciously in the short term at a time of private-sector retrenchment would be a mistake.

Third, the best way to ease the pain of deleveraging is with an export-led boom. Here, progress has been painfully slow. The external deficits of ex-bubble economies have shrunk since 2007, but not by enough-and some now seem to be rising again. There has been too little rebalancing of global demand toward big emerging economies. That will require stronger currencies in emerging Asia and weaker ones in the rich word.

Deeper shifts will also be necessary : a strengthening of consumer society in China, for example, and a reallocation of resources towards tradable goods and services in Britain and America. Unfortunately, the sensible goal of rebalancing towards net exports can lead to dubious policy prescriptions. Britain, for instance, would be mad to turn its back on financial services. No rich country needs a smorgasbord of subsidies for manufacturing. Far better to get rid of distorsions and improve the economy's flexibility.

All this will take time. So the fourth, most important and most depressing lesson for the great deleveraging is that of realism. Even if handled well, the difficult business of debt reduction will hold back the rich world's economies for several more years. Get used to it.