Growth Strategy After the World Financial Crisis

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Policy During the Crisis

	Liquidity Shortage	Shortage of Bank Capital	Macro Stability
Lender of Last Resort Liquidity Facilities	◎	O	O
Restructure Insolvent Banks. Inject Capital into Solvent Banks	O	◎	O
Monetary and Fiscal Policies	O	O	◎

Policy After the Crisis

	Macro Stability	Financial Stability	Social Insurance Public Goods
Monetary Policy	⊙	Δ	
Financial Regulation, Macro Prudential Policy		⊙	
Fiscal Policy	Δ		⊙

Recovery after the crisis depends upon balance-sheet, real rigidity and trend

Quick recovery: output, working capital investment, stock price

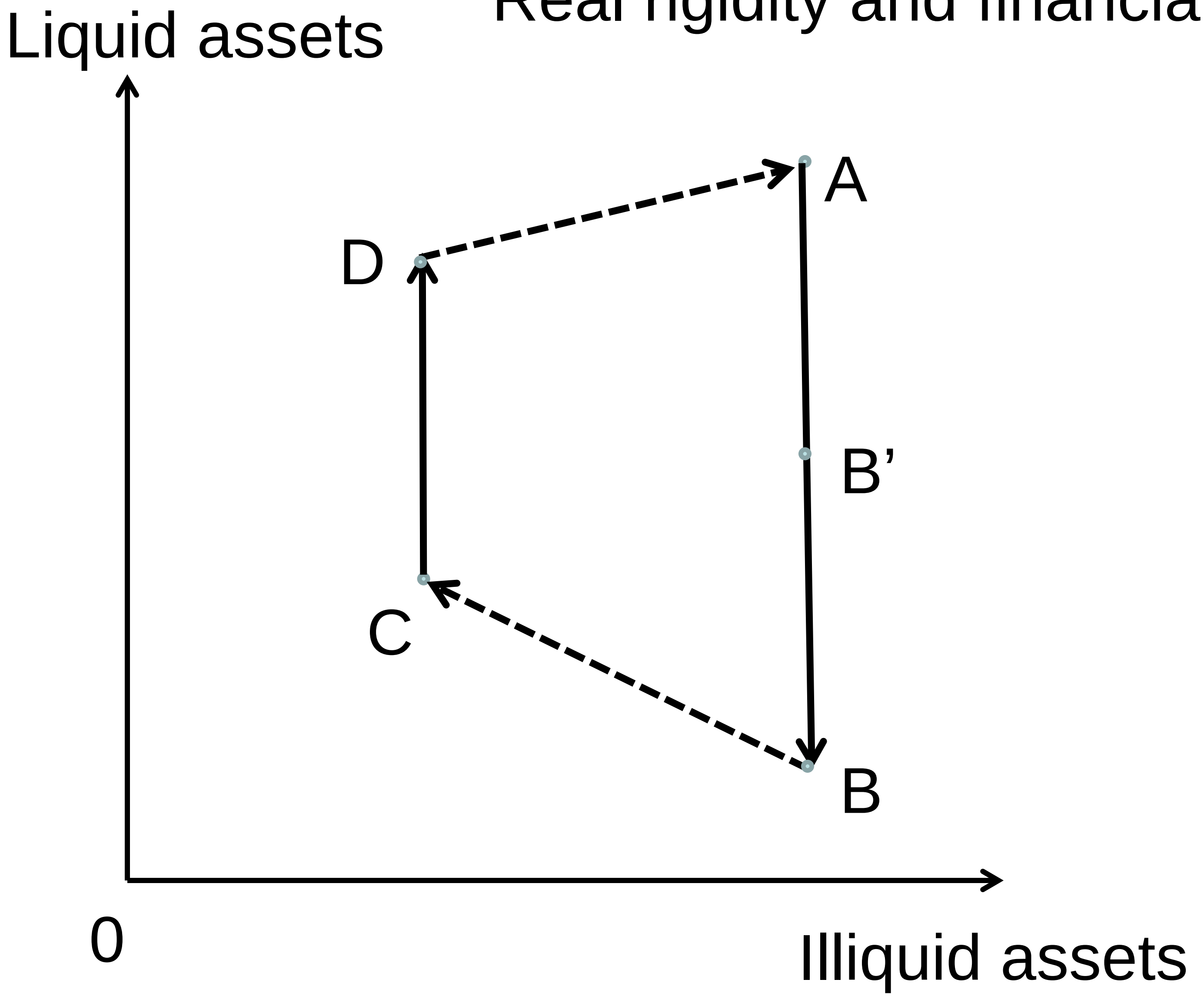
Slow recovery: credit, fixed capital investment, real estate prices

Recapitalization of banks were slower in Japan and Europe than US

Non-Financial Businesses	
Financial Assets	Debts
Working Capital	
Fixed Tangible Capital	
Intangible Capital	Net Worth

Households	
Financial Assets	Debts
Fixed Capital	
Human Capital	Net Worth

Real rigidity and financial friction



A. Caggese “Financial constraints, irreversibility and investment dynamics,” J. Monetary Economics (2007)

Most dangerous legacies of the crisis

Public debt becomes unsustainable → Further financial crisis

Businesses reduce intangible investment

Reduce hire of permanent workers and their training

Reduce investment in R&D and brand

→ Slower growth