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Japan: an unusual crisis

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From 1950 to 1990, the Japanese economy was characterised by its remarkable ability to swiftly recover from the shock that gripped the economy. The annual rate of GDP growth had already dropped from 10% to 5% between the 1960s and 1970s and to 4% in the following decade. However, a sharp economic slowdown from 1992 to 2003, and short-lived recovery periods have unveiled the unusual nature of the current crisis in Japan as being radically different from those experienced in the past.

In Japan's case, can we really call this a "crisis"? Traditionally, an economic crisis is defined as a brief downturn followed by a recession or a long depression such as 1929. Since the end of 1991, Japan's economic situation has mirrored these two definitions. However, when referring to other economic indicators such as trade value, currency reserves, Japan's global net creditor position, R&D costs, a whole other evolutionary vision of Japan's economy comes to light. This is thus why certain analysts question whether Japan's deep economic crisis had actually begun since the start of the 1990s. For an economist and expert on Japan who is more likely to focus on the specifics of an economy rather than trying to turn it into standard macro-economic analysis, it is important to decipher what lies behind this so-called "crisis".

LIBERAL INTERPRETATION OF THE JAPANESE CRISIS

After 56 months of continued expansion (November 1986 until to July 1991), the Japanese economy slowed down, entered a recession and then alternated between recovery and slow-down periods, where it even showed two years of negative growth in 1998 and 2002. This sudden downturn was the result of tightening the monetary policy between May

1989 and August 1990¹. During this period the interest rate increased from 2.75% to 6%, bursting the speculative stock market bubble (1990) and the property development market (1991) and bringing business to a standstill. Thus, between 1991 and 2003, the annual GDP growth rate only increased by 1% per year, with no recovery period having reached such a level since 1980.

In addition to the stock market and property development crises, the banking system crisis deepened until the summer of 1998 when a “credit crunch” situation arose. The entire financial system was deteriorating and deflation took root from 1999. Furthermore, the rate of unemployment leapt from 2.1% to 5.4% between 1991 and 2003. Faced with a high level of debt from firms, the public sector’s debt grew rapidly from 61% to a GDP of 156% during the same period.

According to a liberal information chart, the crisis was evident. The diagnosis was clear: market forces failed to stabilise the financial system that was both overly regulated and complex, resulting in the misallocation of capital and which prevented new sectors from emerging and being restructured. As a result, companies lost their competitiveness; their profit shrank, which led them to reduce hiring more staff or issuing redundancies. The recommended solution was therefore to accelerate deregulations. These deregulations enable competitive supply to emerge and generate demand growth. The economic reality, however, was not as simple as that.

A CRISIS THAT IS SHAPED BY SOCIAL AND POLITICAL FACTORS RATHER THAN ECONOMIC FACTORS

If we stop focusing on economic growth rates, problems of supply and market failures, other indicators tell a very different story. For example, if we look at the balance of payments, i.e. data on Japan’s transactions with foreign countries, we can see that the 1990s were far from being an “empty” decade.

The export value as well as the current surplus doubled in the 1990s compared to the 1980s². The amount of currency reserves held by Japan thus increased from 24,6 to 461,2 billion dollars between 1980 and 2002, placing Japan at the top of the leaderboard. Japan also kept its position as the world’s top creditor during the 1980s owing to the quadrupling of its assets abroad between 1990 and 2000. Domestically, the households’ stock

1. For this period the interest rate increased from 2.75% to 6%.

2. Given in dollars.

of net assets currently amounted to twice the GDP. Finally, R&D investments were maintained throughout the entire crisis period, which is why Japan came in second behind the United States as patent exporters.

However, in 2001, only 31% of the Japanese people believed that their country's prospects would be better in ten years time, compared to 48% of the French. These figures reflect their mistrust of the political circles, which are often corrupt and incapable of inspiring confidence in the future, as implementing the reforms (improvement of the financial system, privatisation, deregulation, fiscal reform, etc.) is a slow process and because there seems to be no plans for a new society.

The erratic growth of the last twelve years appears closely linked to the instability of consumption, much to the distress of Japanese households whose future is uncertain. The socio-economic development model that was designed with economic recovery in mind, under a closed domestic market, was based on a regulatory state, with businesses playing a "community" role, and households saving and being rewarded for their loyalty to a particular business. However, this no longer corresponds to the new environment of globalisation and economic financialisation. While the relationships between men and women, the young and old, cities and regions are fundamentally changing, no new socio-economic model adapted to the rapid ageing of population is emerging. Crime has risen and young people's attitudes towards work are becoming more cynical. So the Japanese "crisis" is thus a crisis of its economic model and trust that has affected the economy. The understanding of these complex mechanisms requires a three-dimensional analysis that examines the economic, social and political aspects.