

THE JAPANESE ECONOMY IN CRISES

Japan's economy was the envy of the world before succumbing to one of the longest running economic crises in history. In the 1970s, Japan produced the world's second-largest gross national product (GNP) after the United States and, by the late 1980s, ranked first in GNP per capita worldwide. But all of that ended in the early 1990s when its economy stalled, plunging the economy into what has been termed the lost decade.

What's Wrong with Japan's Economy?

1. Bank of Japan buys government debt;
2. To spur growth, the Bank of Japan keeps interest rates low. Its discount rate is just 0.3%. It promises that rates will remain low. People expect low rates and falling prices. The expectation means that every time prices rise, consumers stop buying. They just wait for prices to drop again. Businesses can't raise prices or hire new workers. Employees don't get raises, so they just keep saving;
3. The Bank wants to keep the value of the yen low. But the yen carry trade keeps raising it. Even when the dollar's value soared 15% in 2014, it didn't increase the price of imports. A lower yen normally increases the price of imported commodities, triggering inflation. But plummeting oil prices kept prices low. That made deflation worse;
4. The government and the central bank are trying to stimulate growth through expansionary fiscal and monetary policy. But you can't push a string. As a result, Japan has fallen into a classic liquidity trap.

Seven Characteristics of Japan's Economy

(The following seven factors hinder Japan's growth. The country's leaders must address these challenges to restore growth.)

1. Keiretsu is the structured interdependent relationships between manufacturers, suppliers, and distributors; This allows the manufacturer monopoly-like power to control the supply chain;
2. Guaranteed lifetime employment meant companies hired college graduates who stayed until retirement;
3. Japan's aging population means less demand to drive growth;
4. The yen carry trade keeps is a result of Japan's low interest rates;
5. Government spending doesn't boost the economy;

6. Japan briefly became the largest holder of U.S. debt in 2015 and again in 2017. Japan does this to keep the yen low relative to the dollar to improve its exports;

7. Japan is the world's largest net food importer. The country has just one-third as much arable land per person as China.

Some key lessons are as follows:

1. *Act quickly to stem the crisis.* The bank of Japan's reluctance to act quickly caused a crisis of confidence among investors and may have exacerbated its problems;

2. *Spending isn't the answer.* Japan's attempts to spend on public works projects weren't particularly successful in helping it recover more quickly from its economic woes;

3. *Counteract demographics.* Japan's reluctance to substantially raise its retirement age or taxes only helped to further its demographic problems;

4. *Don't rack up debt.* Japan's massive levels of debt were ultimately responsible for its crisis and the lost decade, and the BOJ was behind the curve in raising interest rates.