

"For Japan, a Long, Slow Slide: Declines in Productivity, Population Combining to Stifle Economic Growth"

# "For Japan, a Long, Slow Slide: Declines in Productivity, Population Combining to Stifle Economic Growth"

---

*Source:* <http://sci.tech-archive.net/Archive/sci.econ/2008-02/msg00052.html>

---

- *From:* Mike <[yard22192@xxxxxxxxxx](mailto:yard22192@xxxxxxxxxx)>
  - *Date:* Mon, 4 Feb 2008 10:38:48 -0800 (PST)
- 

news.google.com  
www.washingtonpost.com

For Japan, a Long, Slow Slide  
Declines in Productivity, Population Combining to Stifle Economic  
Growth

Washington Post  
Sunday, February 3, 2008; A17

TOKYO — As the United States frets noisily about a recession, Japan is quietly enduring a far more fundamental economic slide, one that seems irreversible.

This country, which got rich quick in a postwar miracle of manufacturing and alarmed Americans by buying up baubles such as Rockefeller Center, is steadily slipping backward as a major economic force.

Fifteen years ago, Japan ranked fourth among the world's countries in gross domestic product per capita. It now ranks 20th. In 1994, its share of the world's economy peaked at 18 percent; in 2006, the number was below 10 percent.

The government acknowledged last month what has long been obvious to economists and foreign investors, if not to the Japanese public and many politicians. The minister of economic and fiscal policy, Hiroko Ota, told parliament that Japan could no longer be described as a "first-class" economy.

"I have a sense of crisis because Japan has not nurtured industries that will grow in the future," said Ota, who offered no specific remedies for the crisis.

Japan is still the world's second-largest economy, as measured by gross size, although the island nation has been surpassed by China in

"For Japan, a Long, Slow Slide: Declines in Productivity, Population Combining to Stifle Economic Growth"

## "For Japan, a Long, Slow Slide: Declines in Productivity, Population Combining to Stifle Economic Growth"

purchasing power. In coming decades, the economies of China and India will dwarf Japan's, according to many projections. By 2050, Japan's economy will be about the size of Indonesia's or Brazil's, according to a study by PricewaterhouseCoopers.

Japan's slide relative to other major economies is not a tabloid tale of suddenly squandered riches. It is rather an insidious petering out of growth, productivity and innovation — and of political will to stop the slippage.

The slide has dovetailed with another quietly insidious crisis — the petering out of the population. Japan has the world's highest proportion of elderly people and the lowest proportion of children.

By 2050, population decline will have reduced economic growth to zero, according to the Japan Center for Economic Research. Seventy percent of the country's labor force will have disappeared.

The undertow is already being felt here. Supermarket and department store sales have declined for 11 consecutive years. Toyota now is arguably the world's largest carmaker, but sales of new cars of all brands in Japan peaked 18 years ago and have been falling steadily since then.

Still, with the exception of increasing poverty among the elderly in shrinking rural towns, this remains a remarkably comfortable middle-class country, with good health care and infrastructure and a low crime rate.

Unemployment is at a 10-year low of 3.9 percent, although wages are stagnant or declining. Thanks to six consecutive years of (relatively slow) growth, the panic and deflation that accompanied the bursting of Japan's real estate bubble in the 1990s are gone.

"People here are rich, happy, safe and clean," said Oki Matsumoto, chief executive of Monex Inc., an Internet investment company. They also have more savings in the bank than residents of any other major wealthy country.

And that is precisely the problem, according to Matsumoto and many others who worry about Japan's future.

"Although the situation is not good, because it is not so bad, people from top to bottom remain indifferent," said Minoru Morita, a political analyst in Tokyo. "The leaders in this country don't expect too much and they are very good at adapting to a new environment, even if that means a downward spiral."

Economists here say that although Japan's economy is growing, it is not growing nearly fast enough to keep pace with other countries, especially booming China and much of the rest of Asia.

"For Japan, a Long, Slow Slide: Declines in Productivity, Population Combining to Stifle Economic Growth"

## "For Japan, a Long, Slow Slide: Declines in Productivity, Population Combining to Stifle Economic Growth"

Japan, in many ways, continues to keep out foreign capital and foreign management. It ranks last in foreign direct investment among the 30 members of the Organization for Economic Cooperation and Development, and second to last in venture capital investment.

Its market for initial public offerings is shrinking because of onerous regulation, according to the Nihon Keizai Shimbun, the country's leading financial newspaper.

As stock markets boomed across the rest of Asia last year, stocks here declined by nearly 12 percent. They are off another 11 percent so far this year. Two major investment firms here say Japan has fallen into recession.

Many foreign investors are pulling their money out of Japan and looking elsewhere for good long-term return, said Hiromichi Shirakawa, chief economist in Tokyo for Credit Suisse.

"Japan has failed to generate any interesting investment themes," he said. "Inside this country there is a very limited sense of urgency."

Shirakawa says there are good reasons to be urgently concerned, even about the one area of Japan's economy that remains relatively strong: manufacturing.

"Over the medium to long term, I think that Japanese manufacturers cannot survive because of international competitive pressures," he said.

In the classes he teaches at Tokyo's Keio University, Shumpei Takemori compares Japan's passive acceptance of economic slippage to that of a frog swimming in a dish of slowly warming water. "Our problem is that the frog is already boiled," said Takemori, a professor of economics. "It doesn't have enough energy to jump."

A jump toward restructuring did occur here after the bursting of the bubble in the 1990s.

Junichiro Koizumi, prime minister from 2001 to 2006, moved more aggressively than any postwar Japanese leader to overhaul the banking system, deregulate big business and open up the economy. His government convinced many investors that "Japan is back," and the stock market rebounded.

But under his successors — Shinzo Abe and now Yasuo Fukuda — the momentum for change has stalled. In recent months, there has been re-regulation.

New building codes hobbled the home-building industry, sending housing starts last fall to a 40-year low. New lending regulations created a

"For Japan, a Long, Slow Slide: Declines in Productivity, Population Combining to Stifle Economic Growth"

## "For Japan, a Long, Slow Slide: Declines in Productivity, Population Combining to Stifle Economic Growth"

credit squeeze for small businesses. For the first time since 1990, Japanese companies are increasingly buying each other's shares to stave off acquisition by foreign companies, according to research done by Nomura Securities.

Japan's foreign minister, Masahiko Komura, said last month that the government might consider requiring long-term foreign residents to prove proficiency in speaking Japanese, a suggestion that spooked foreign businessmen here.

Regardless of government policy, some downward drift of Japan from its lofty economic perch is natural and inevitable, according to economists and business leaders.

Japan's spectacular flush of manufacturing wealth after World War II was, in many ways, "lucky," said Matsumoto, the investment company executive, who is a student of Japanese economic history.

"The government took a huge bet on a few strategic industries — like steel and automobiles — and it worked," he said. "It took our economy up to second place in the world. It is totally abnormal for a country with 127 million people."

Citing the rise of China and India, Matsumoto says global capitalism is shifting patterns of wealth creation in a way that more closely links a country's gross domestic product with the size of its population.

What concerns political and economic analysts is that many Japanese politicians — and the voters they represent — do not understand how wealth is being created in the 21st century.

"The current leadership of Japan came of age during the incredible success after World War II," said Matsumoto. "They think that what worked then will work forever."

.