

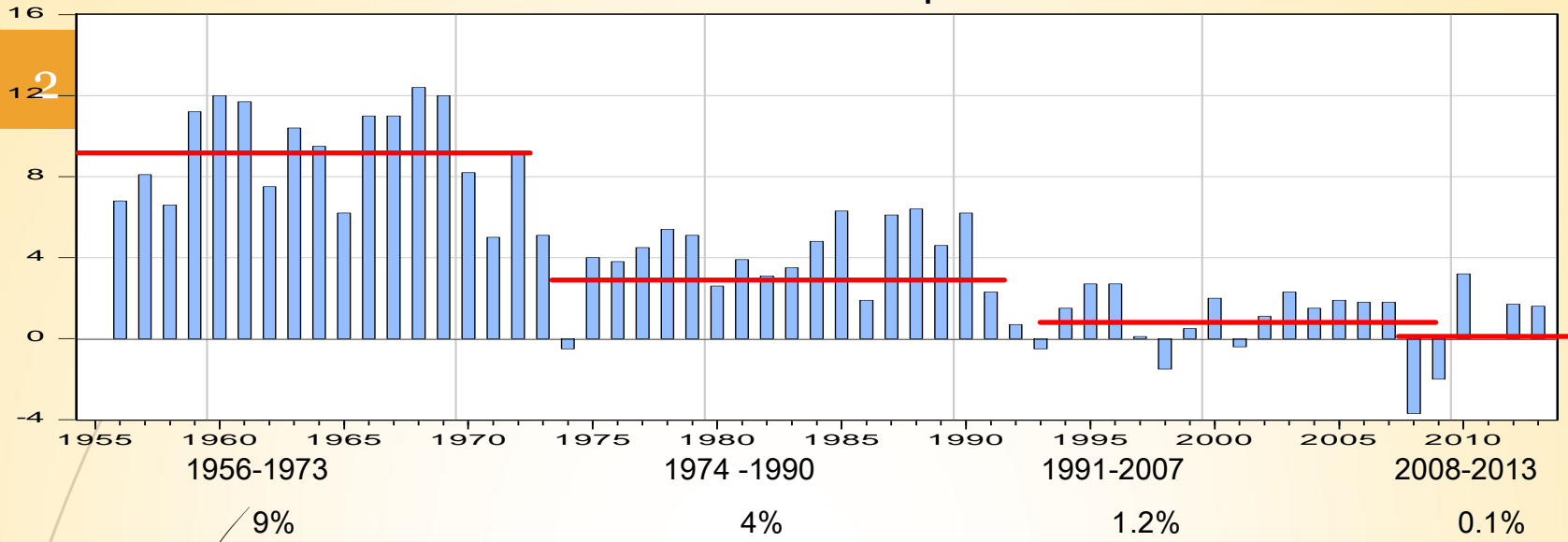
Secular Stagnation in Japan: An Overview

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Secular Stagnation in Europe and Japan
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1

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Real GDP Growth in Japan



Revival of great depression

Lost two decades

Transition to stable growth

Lost two decades can be divided into two acts:

Act 1 “lost decade” : 1990s

Act2 “another lost decade” : 2000s

Tragedy (comedy ?) consists of two acts structures.



Now let's open the curtain....

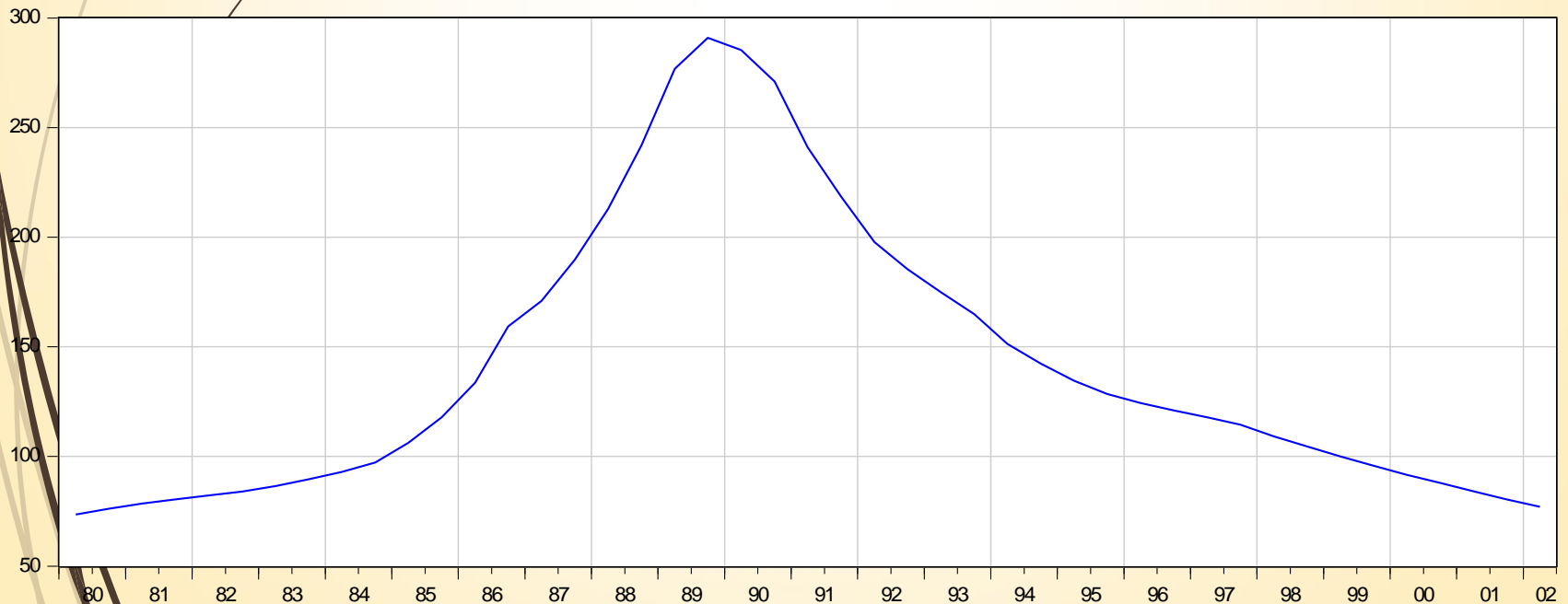
Act 1 lost decade : 1990s



Scene1 Land price and Bad loans(1)

1) In 1990, land prices began to decline sharply, and the lending system based on land collateral loans experienced a completely collapse.

Change of Land Price in Japan

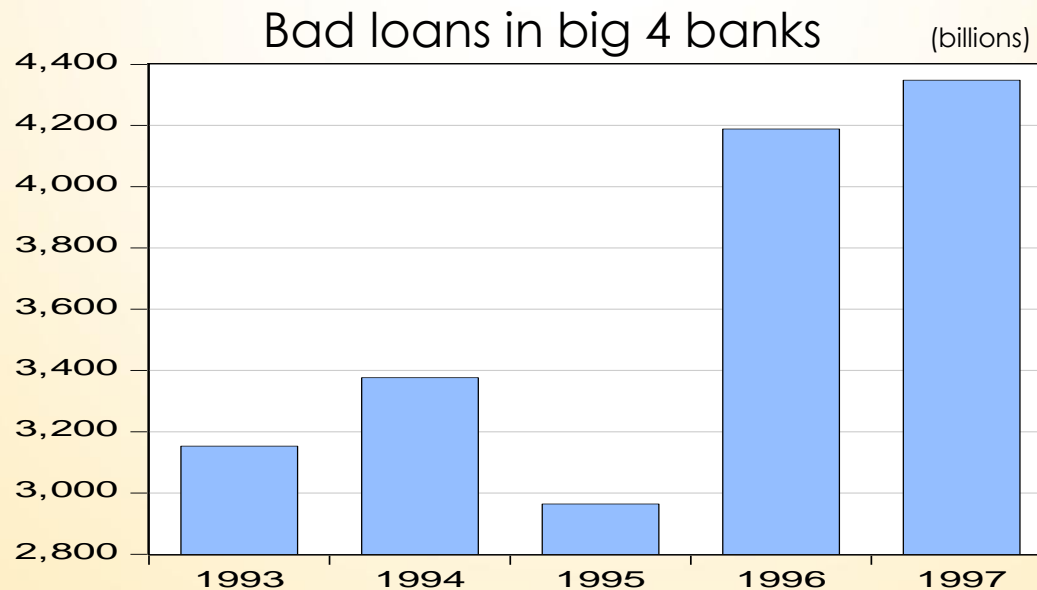


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Scene1 Land price and Bad loans(2)

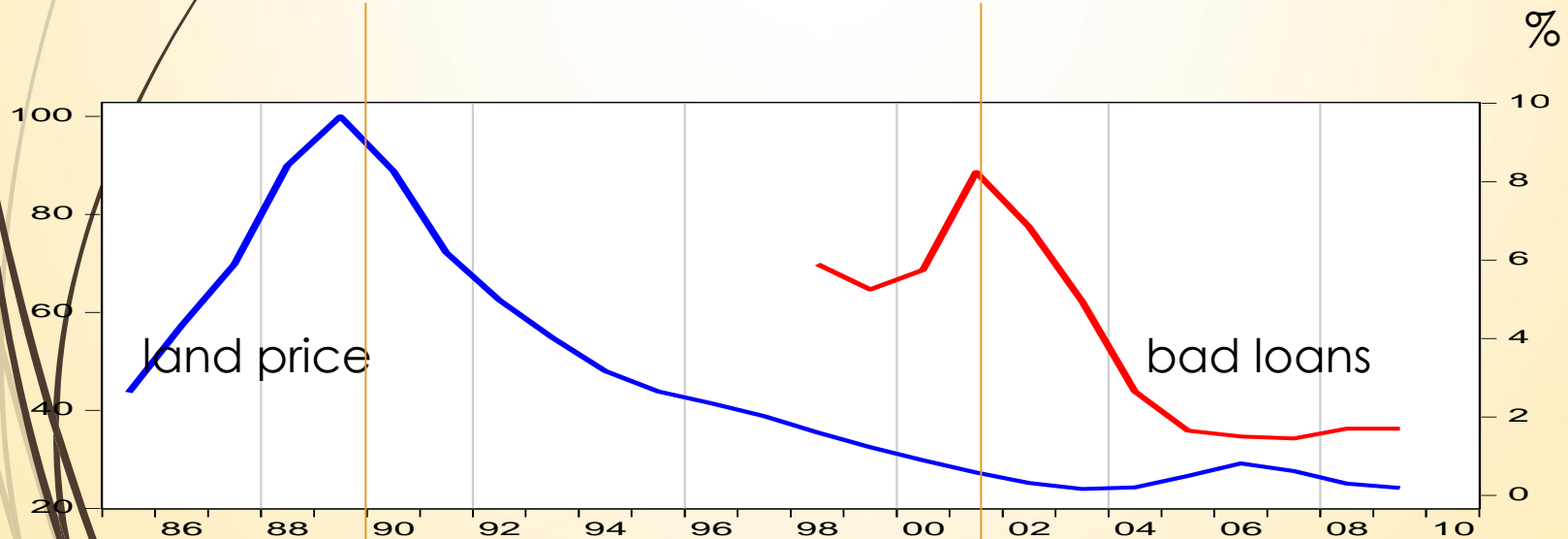
2) the value of land collateral became likely to be lower than the loan amounts .

3) As a result, many banks held a large volume of **bad loans**.



Scene1 Land price and Bad loans(3)

- 4) The most crucial issue in the Japan's bad loan problem was that banks were unusually slow in disposing them.
- 5) There is an almost **ten-year lag** between land price down and bad loans reduction.



Scene2 Balance sheet adjustment(1)

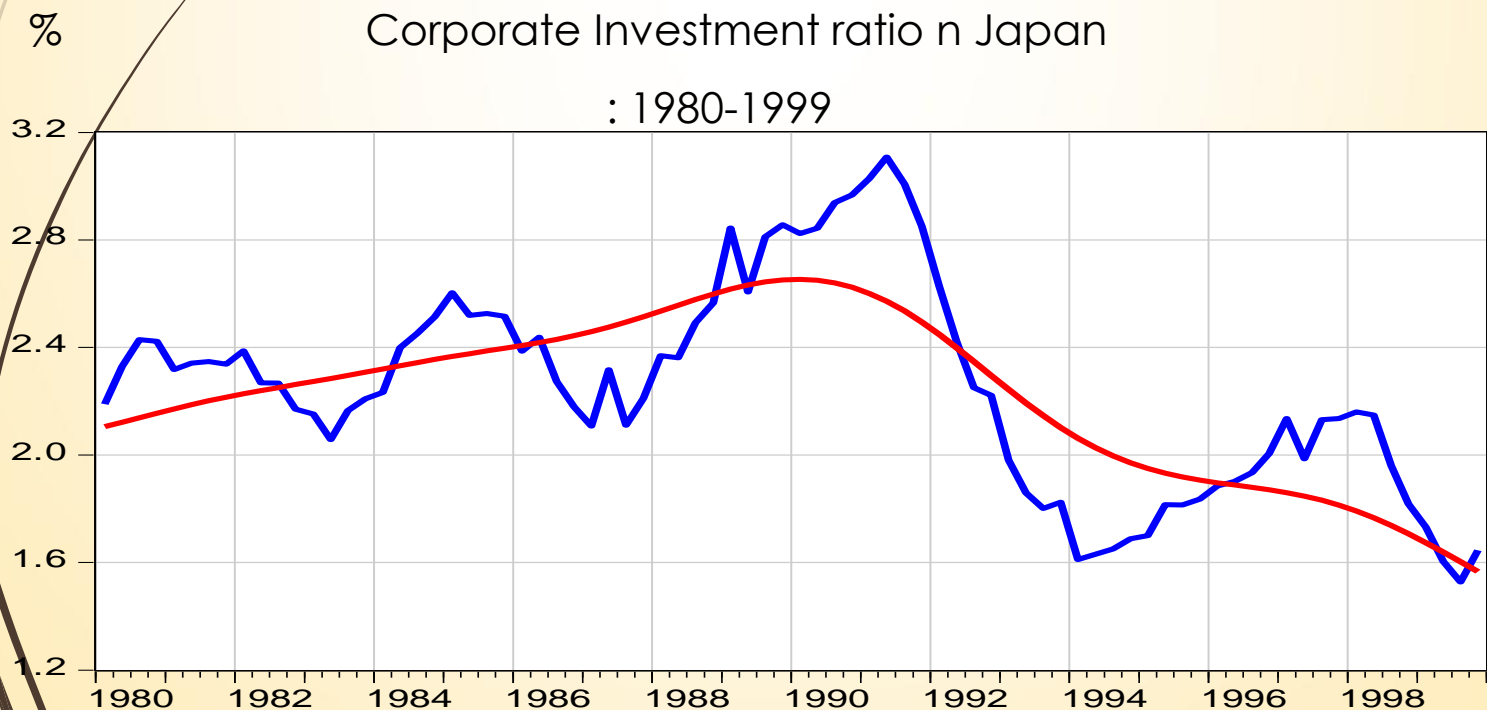
1) After the bubble burst, economic activity shrunk together with the fall in asset prices, and the corporate and household sectors were confronted with excesses in debt, production capacity, and employment.

2) In Japan, it was the **corporate sector** that mainly faced excessive debt.

(In U.S, U.K, Spain: household sector)

Scene2 Balance sheet adjustment(2)

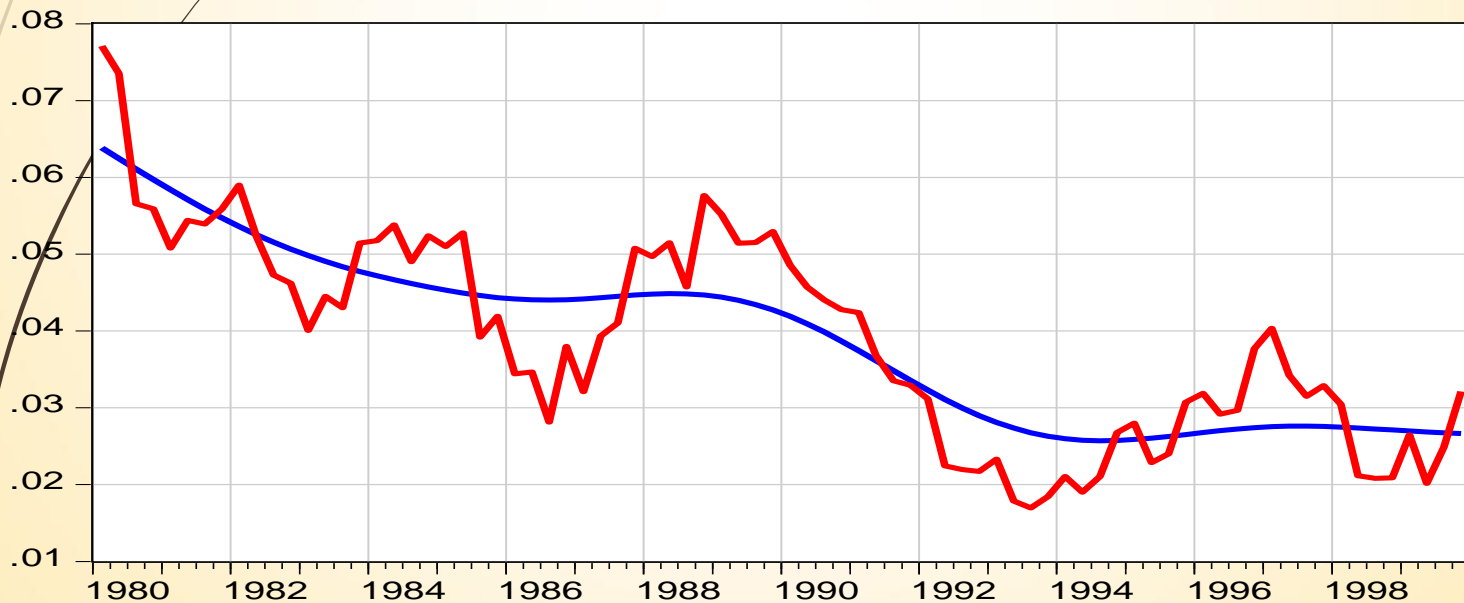
- 3) Corporate balance sheet adjustment had been long lasting.
- 4) Especially the adjustment is generally achieved by reducing **corporate investment**.



Scene2 Balance sheet adjustment(3)

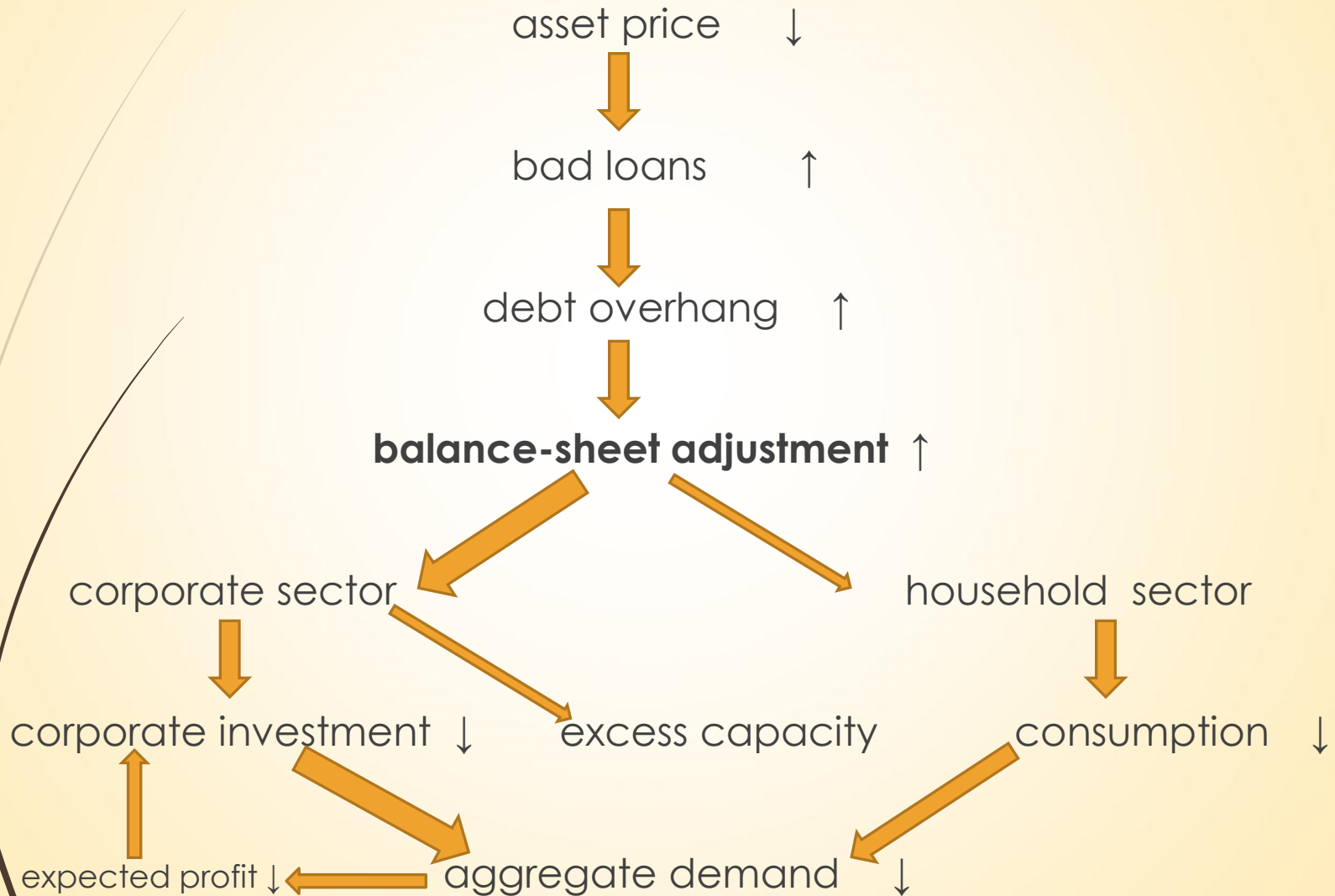
3) Reduction of corporate investment was also induced by the **expected profit** slow down based on the stagnation.

Tobin's marginal q
: 1980-1999



Abel and Blanchard(1986) method

summary lost decade: 1990s



summary lost decade: 1990s

In short, main actor of lost decade might be on the **demand side**.

A. Hansen

L. Summers

R. Koo



Act 2 another lost decade : 2000s



Scene 1 after the bad loans problem

1) In early 2000s when the disposal of bad loans dramatically proceeded , everyone thought that the lost decade was over and the Japanese economy would soon recover.

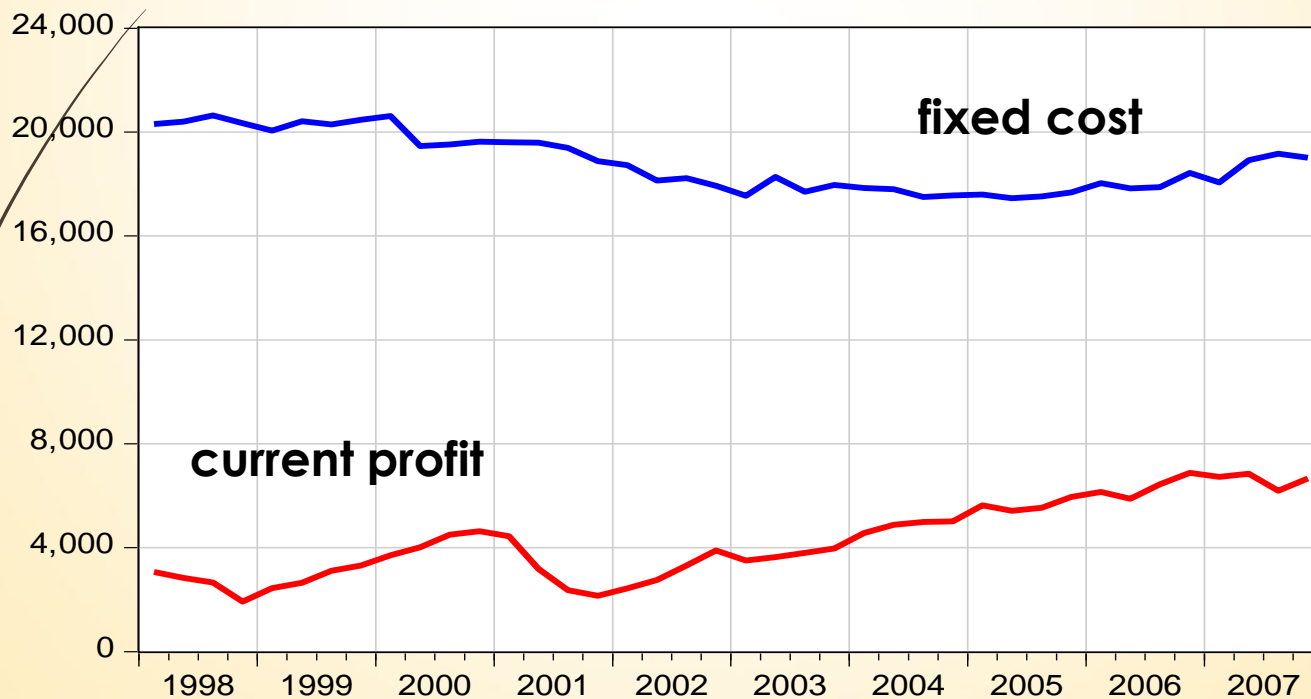
2) At that time, nobody imagined that another lost decade was about to cover up the Japanese economy.

Scene 2 backward-looking corporate structural reform (1)

1) The drastic disposal of bad loans commenced at the beginning of the 2000s and many companies, as borrowers, rush to cure their **debt overhang**.

Scene 2 backward-looking corporate structural reform (2)

2) They undertake myopic tactics such as **restructuring**, **cost-cutting** and **wage reductions**,



Scene 2 backward-looking corporate structural reform (3)

2) In addition, since the end of 1990s, international price competition was becoming more intense with the rise of emerging economies, such as China, Korea and Taiwan.

3) This global tendency accelerated cost reductions by Japanese companies even further and generated the **deflation** which accompanied wage reductions since the end of 1990s.

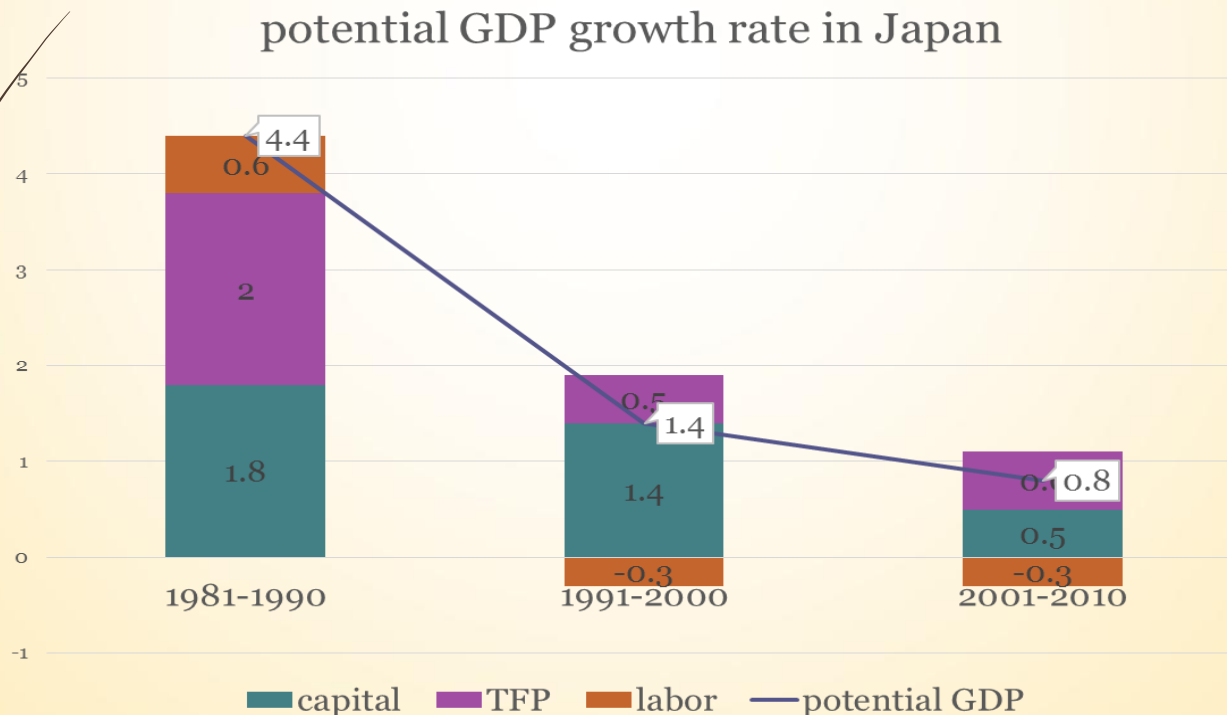
Scene 2 backward-looking corporate structural reform (4)

4) Therefore, in the 2000s, the mind of Japanese companies became quite myopic with a focus on current profits rather than long-run strategy including **excellent innovation** and **technological progress**.

6) Consequently, the **productivity** of Japanese firms sharply decreased during the 2000s.

19 Scene 3 Slow down of potential economic growth

- 7) Decrease of productivity lowers potential economic growth.
- 8) Also decrease of **labor population** play an important role of potential economic growth slow down.



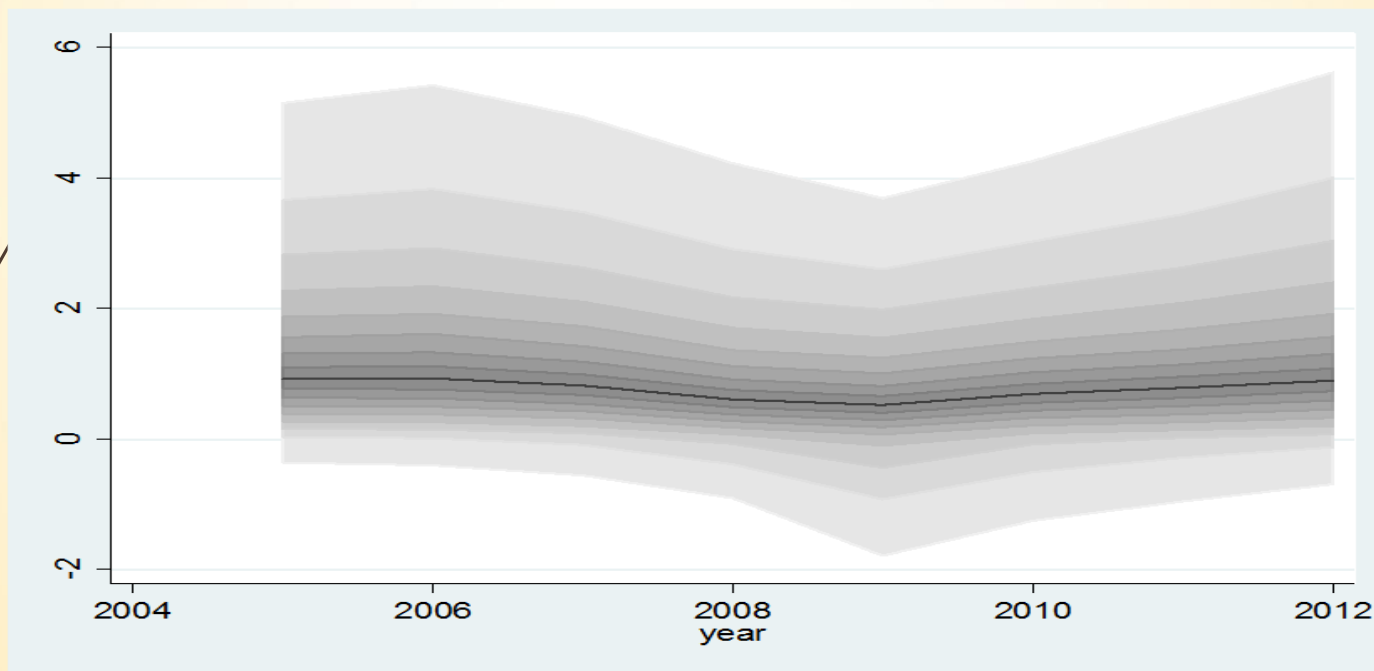
Scene 4 Slow down of investment

9) Low potential economic growth shrinks the corporate investment.

Tobin's marginal q:

Japan

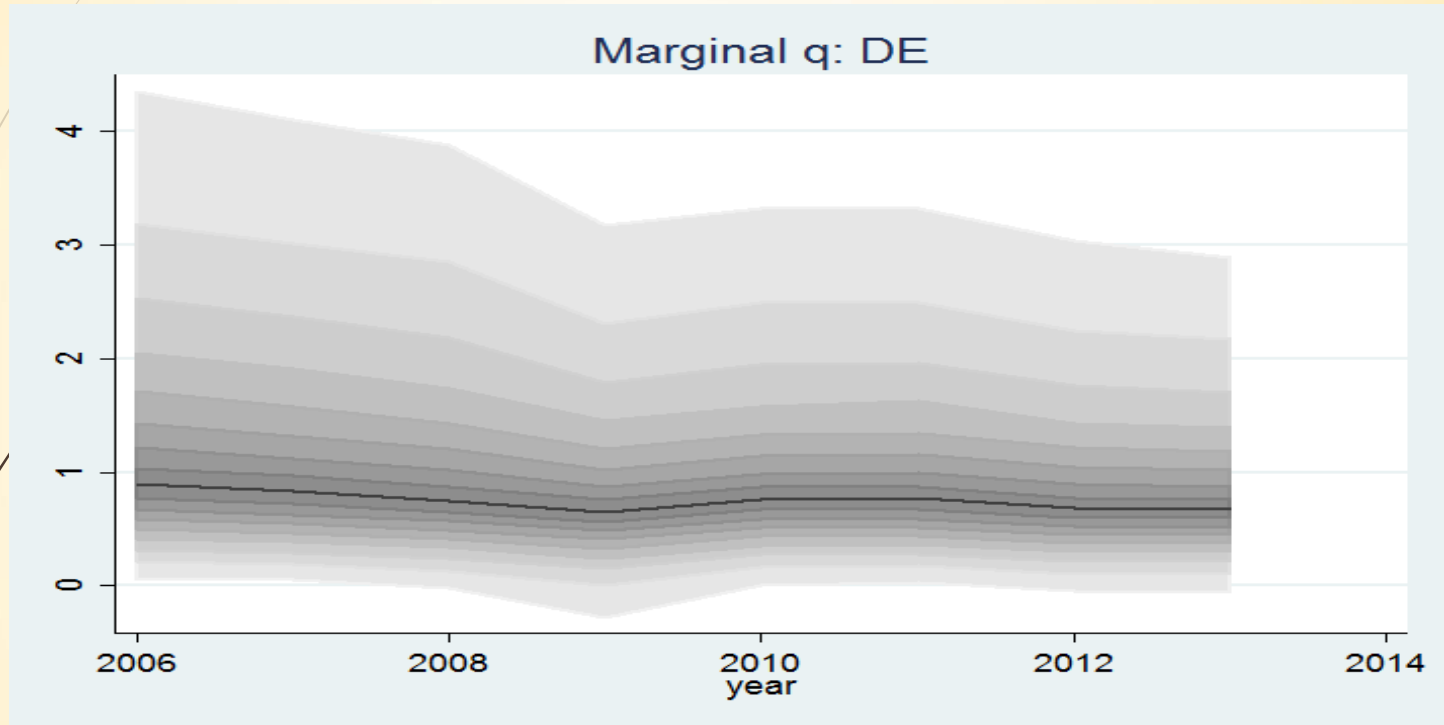
2005-2012



N=20258

Tobin's marginal q:
2006-2012

21

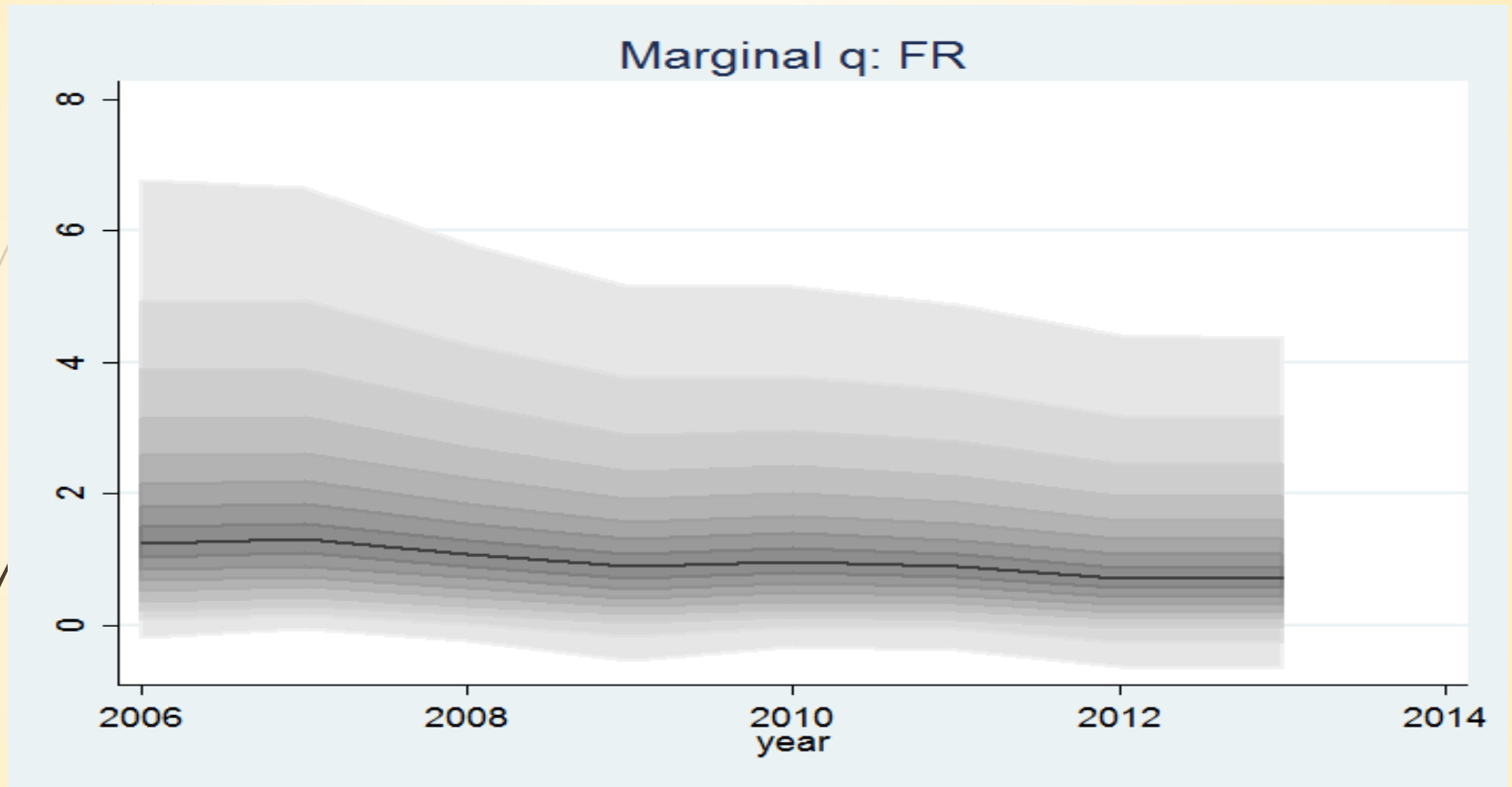


N=11200

Tobin's marginal q:

2006-2012

22



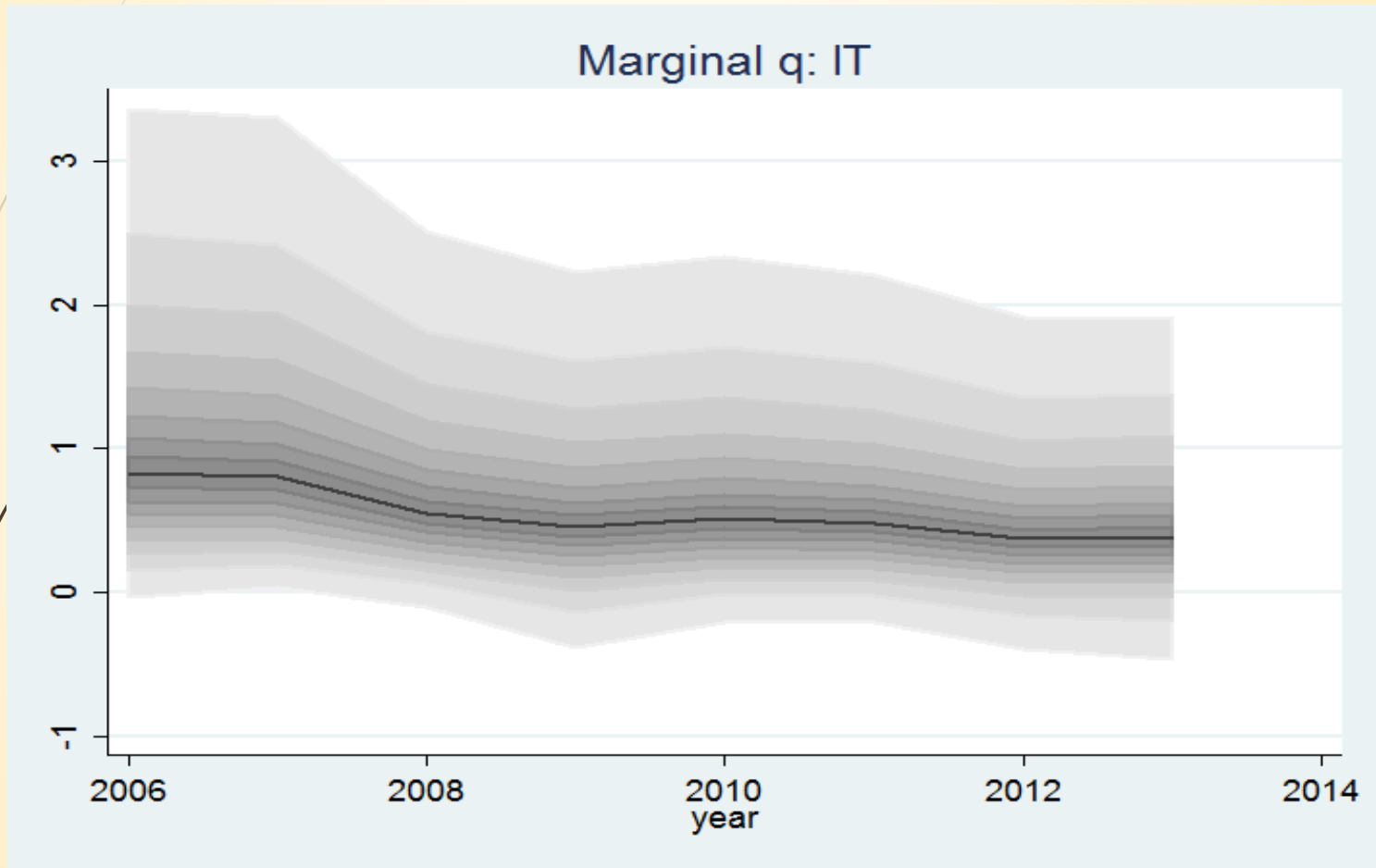
1.1

N=47041

Tobin's marginal q:

Italy

2006-2012



N=36375

Tobin's marginal q
2016-2012

Germany 1.0

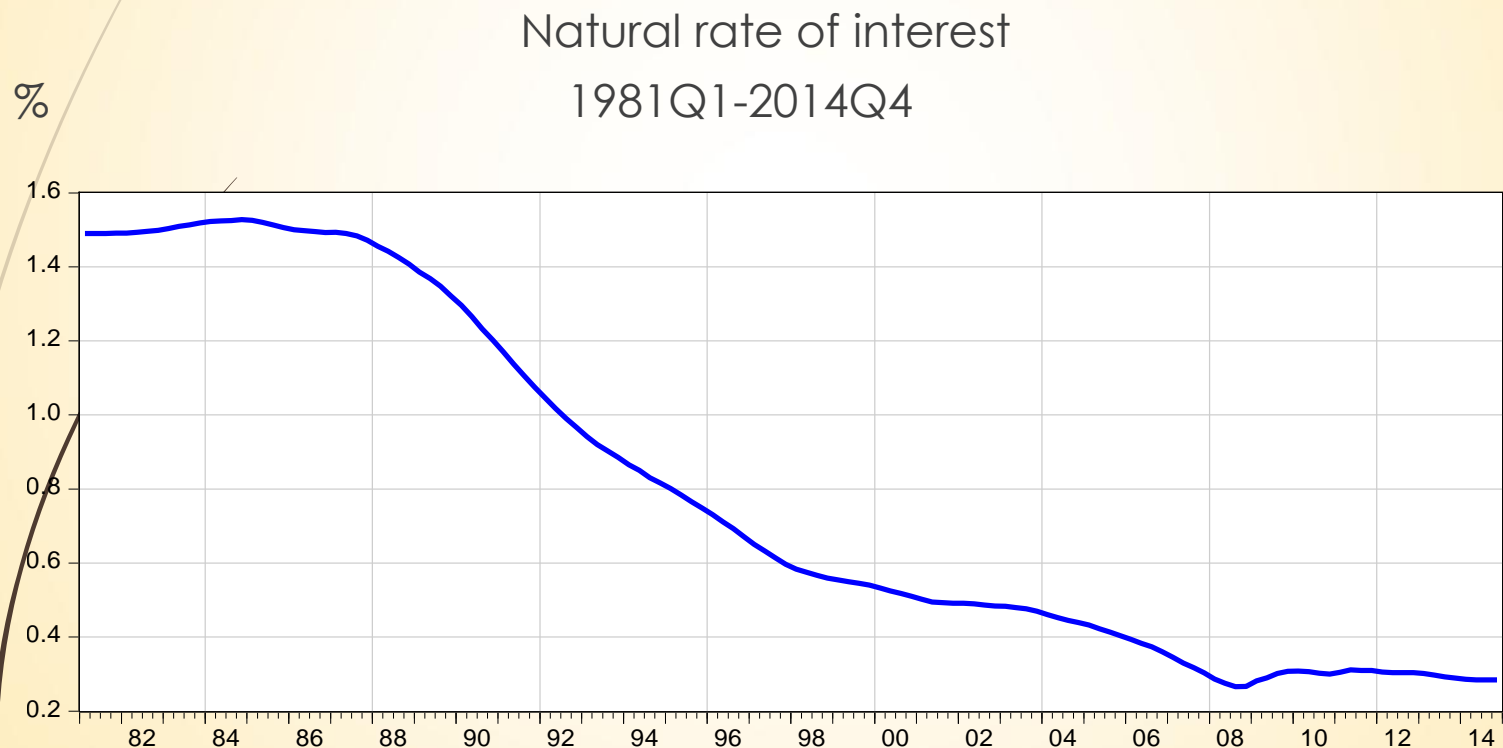
France 1.1

Italy 0.6

Japan 0.5

Scene 4 Slow down of investment and natural rate of interest

9) Low potential economic growth shrinks the corporate investment and lowers **natural rate of interest**.



Laubach and Willimas(2003) method
(L.Summers in U.S)

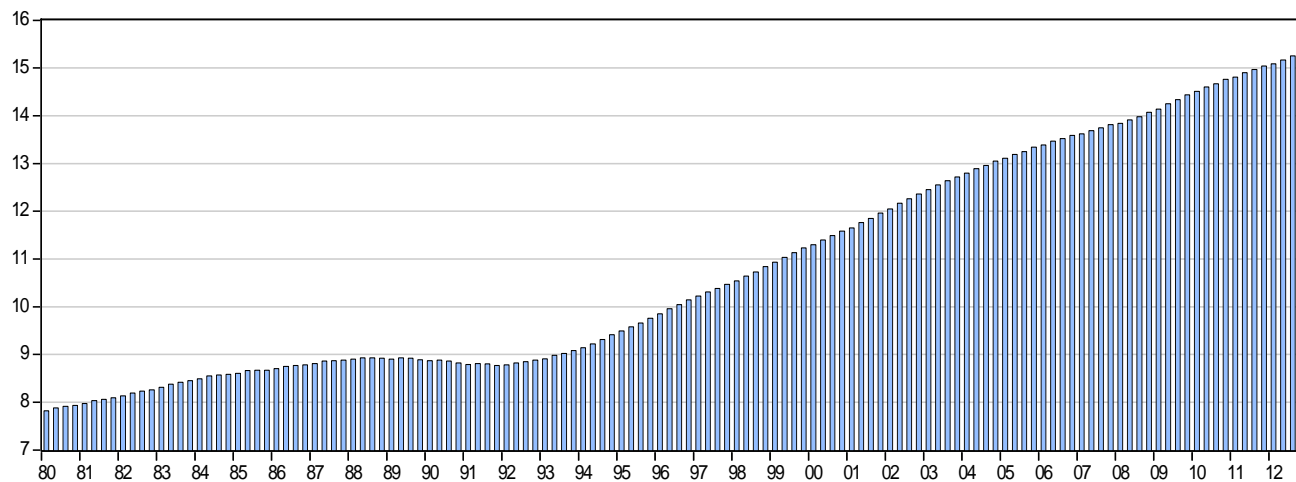
Scene 5 downward spiral in productivity

10) Continuous decrease of corporate investment ages **capital vintage** and slows **embodied technology**.

Capital vintage

1980Q102012Q4

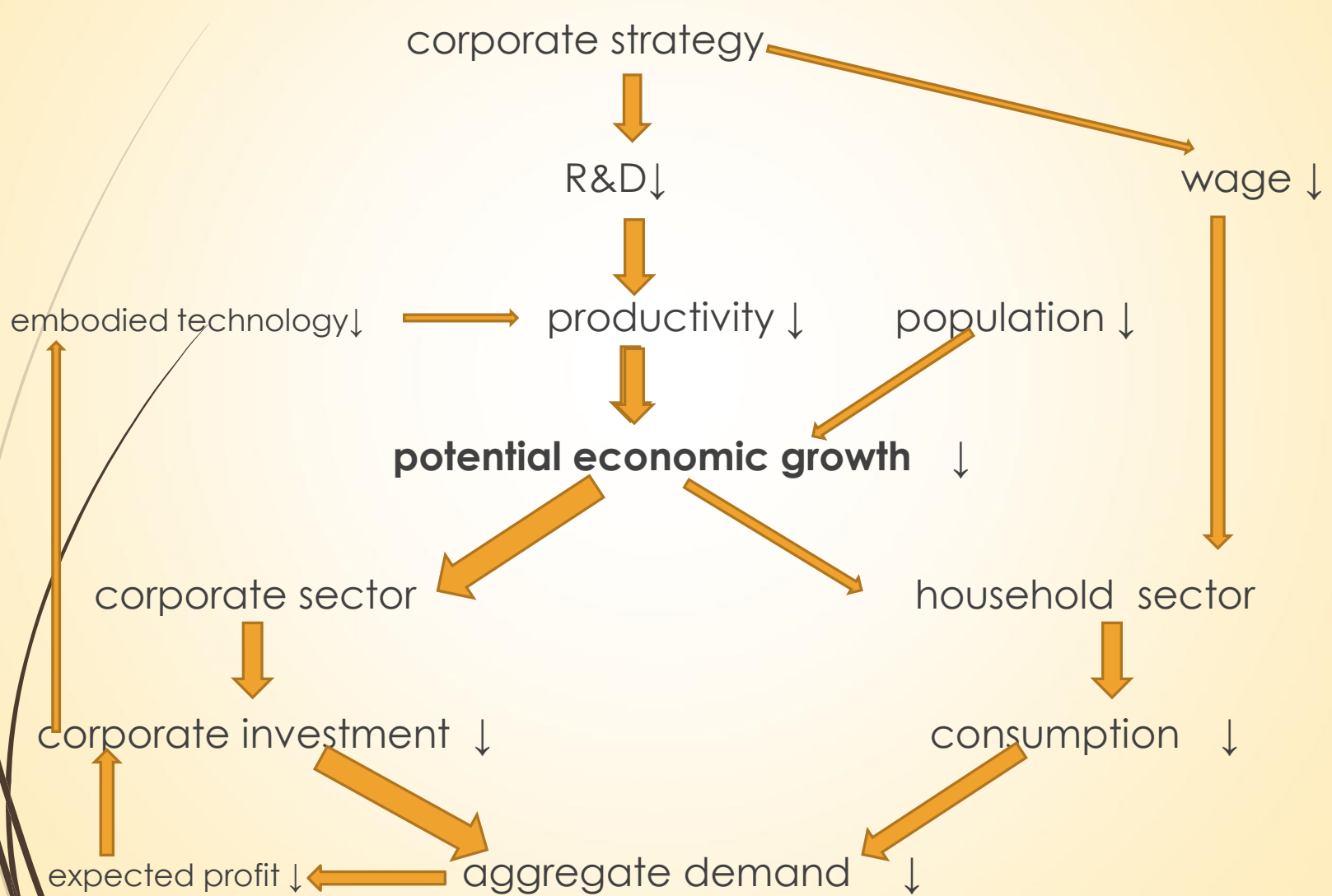
year



When the vintage of capital is younger, younger is better

summary another lost decade: 2000s

27



summary another lost decade: 2000s

Main actor of another lost decade might be on the **supply side**.



J. Schumpeter

R. Gordon

B. Eichengreen

Lessons

Lesson(1)

The bold and prompt disposal of bad loans should be indispensable after the bubble bursts.

Lessons

Lesson(2)

Companies have a tendency to rush to cure their **debt overhang** and therefore they tend to undertake **myopic strategy** such as restructuring, cost-cutting and wage reductions, which may cause deflation.

(lost decade in 1990s and another lost decade in 2000s are closely related)

Lessons

Lesson(3)

After the end of balance sheet adjustment, what company should really do is to seek **forward-looking structural reforms** that support innovation and productivity.

Lessons

Lesson(4)

New secular stagnation may be the complicated case in which both **demand and supply side** are connected.





Thank you for your attention.