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Japan As Number One in the Global Economic Crisis: Lessons for the World?

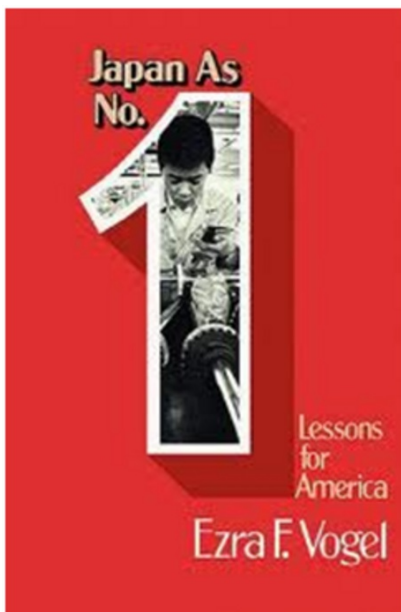
R. Taggart Murphy

The following remarks were prepared for the forum "Japan as Number One Revisited" held the evening of October 27, 2010 at the Iwasaki Koyata Memorial Hall of the International House of Japan in Tokyo. The occasion was an 80th birthday celebration for Harvard Professor Emeritus Ezra Vogel.

I think it was about two years ago when the full scale of the financial and economic crisis that has now swept the world was becoming obvious that I remarked at a conference similar to this one that a possible silver lining would be an end to the condescension of the world's pundits and policy makers towards Japan. You all remember the various loudly advertised and mutually contradictory formulas for pulling Japan out of its stagnation – inflation targeting, restructuring of the banks with the bad loans – furyo saiken – separated out so that newly recapitalized banks could start lending again, full-bore pedal-to-the-floor fiscal stimulus, not to mention that old standby, complete re-organization of the economy along neo-liberal lines. What I used to find irritating was not only the smug assurance of those proffering the advice, but the sense they conveyed that the only reason Japan's policy makers didn't drop everything and follow whatever it was they were recommending was that policy makers here were stupid or corrupt or in the thrall of incorrect mercantilist doctrine or what have you; not that policy makers here might be subject to the same fears and doubts that assault their counterparts in Washington, London and Berlin, or be subject to similarly immense and countervailing political pressures.

Well, now that unemployment, snowballing debt and tumbling real estate prices seem to have landed the Western world in a vise as tight and unyielding as the one that has trapped Japan's policy makers for the past 15 plus years, am I right in detecting a bit more sympathy these days for Tokyo? I gather from news reports that the Fed is tied up in knots over whether or not to announce an inflation target; I would hope there might as a result be the beginnings of some sympathy now for the Bank of Japan's long reluctance to do so – what happens after all to the credibility of a central bank if it announces an inflation target and can't reach it? Americans and Europeans have discovered that it's not as easy as one might think to restructure from the bottom up a financial sector – not when you've got all kinds of pressure groups that are quite comfortable with the way things are, thank you, and are prepared to go to the mat to defend them. And then there was that favorite sport of the Japan critics -- mocking the start-and-stop fiscal stimulus that we saw here in the 90s. Well, how would one describe the fiscal history of the last few years in the United States? It may be true that Kasumigaseki and Nagata-cho don't have to cope with Republicans, but there are plenty of politically powerful people here too who have long regarded deficit financing as a pact with the devil and see Keynes as some sort of snake-oil salesman.

Fundamentally, the notion behind all the advice that was so freely dished out to the Japanese -- and the condescension behind it -- was the idea that decision-makers here operated in some sort of magical policy space free of political pressures. I don't think it fair to blame Ezra Vogel for the origins of this idea. But I wonder if his 1979 classic did help kick-start the notion that somehow decision makers here had gotten it right because they were free of the pressures that beset their Western counterparts. And thus by extension that when things started to go wrong after 1989, it was only mule-headed obstinacy that prevented them from setting things right again.



Now perhaps it is finally becoming clear that Japan's policy makers have been unable to pull Japan out of its stagnation not because they are obstinate or stupid or in thrall to mercantilist dogmas but because the problems they have to cope with are intractable. Maybe this is becoming clear because policy makers in the West find themselves confronting a rather similar set of intractable problems. With the dawn of this clarity, perhaps it's time to revisit Ezra's original contention – that is to say that there really were some lessons to be learned from Japan back then, and that, by extension, there are some lessons to be learned from Japan today – and not, I might add, the kinds of "lessons" you hear yapped about so much: how to avoid the so-called "lost decade" as if we in the West were not already well into one of our own.

Let me tease this out a little more. Implicit in much of Ezra's writing is the notion that Japan had figured out a superior response to the general political and economic conditions that prevailed in the immediate postwar decades – things like a stable exchange rate regime, cheap energy, and pent-up demand that came from the need to rebuild a world that had just come through decades of depression and war. No question that elements of the formula Japan perfected were copied to a greater or lesser extent by the other economies of East and Southeast Asia – most particularly China – and that that copying got under way just when the formula began to work less well for Japan. The response here when the "Japan as Number One" formula started to break down was to experiment with asset bubbles – something that, until recently, saw Japan come in for a good deal of mocking, but then what exactly has the rest of the developed world been doing since the 1980s?

Last year, I wrote a long [review essay](#) for the *Asia Pacific Journal: Japan Focus* of Robert Brenner's *The Economics of Global Turbulence*. As most of you know, Brenner – the director of the Center for Social Theory and Comparative History at UCLA -- is arguably the world's most distinguished Marxian economic historian. In fact, the British theorist and editor Perry Anderson has written in referring to Brenner's scholarship, that "as in no other body of work today, Marx's enterprise has found a successor." Brenner argued in a post-Lehman shock new preface for his book that the bubbles we have endured for the last

three decades were not, as they are commonly seen, an accidental product of financial shenanigans or policy failures. But rather that they are "the inevitable response of the advanced capitalist countries in coping with a major decline, and stubborn failure to revive, of the rate of profit, finding its fundamental... source in a persistent tendency towards over-capacity in the global manufacturing sector, which originated in the intensification of international competition between the mid-1960s and mid-1970s." No prizes tonight for guessing who intensified that international competition, but what makes Brenner so interesting here is that he then goes on to suggest first that the initial response of the advanced capitalist countries to counteracting this phenomenon was Keynesian stimulus, second that like growing insulin resistance on the part of diabetics, Keynesian stimulus has become decreasingly effective over time, and finally that to compensate for this declining effectiveness, governments began to aid and abet banks and corporations in blowing asset bubbles as an alternative way of staving off the political pressures brought on by secular declines in profitability stemming from the systemic creation of overcapacity.

Now the issue is not whether one agrees or not with Brenner's analysis – I obviously find it compelling – but rather his explicit acknowledgement that the path



setter was Japan; that is to say that the mechanisms Ezra described for us all so brilliantly were turned to the blowing of bubbles. I have argued in my own writing that the bubble economy was a deliberate policy response to the Plaza Accord and that its origins can be traced as far back as the Tanaka cabinet's announced intention to redevelop the Japanese archipelago. The plan of course wasn't specifically to send asset prices soaring to the point where they bore no relation to the cash flows they could generate, but rather as the Japanese government's own spokesmen admitted, to reconfigure the economy so it became less dependent on export-led growth. I think we would have to acknowledge that so far they have failed, but in the process they may have another lesson to teach us.

That lesson is not that the rest of the developed world should be chary of blowing asset bubbles – it's a bit too late for that lesson to register. If imitation is the sincerest form of flattery, then Tokyo found itself earlier in this decade with a whole host of flatterers – not just in Beijing, Seoul, and Taipei, but in Washington, Reykjavik, Dublin and Athens, not to mention the halls of Fannie Mae and the corridors of Lehman Brothers. But rather in their efforts to cope with the after-effects of the bubble's implosion, Japan's policy makers may yet again have something to teach the rest of us.

I don't mean to be pessimistic, but just suppose that beginning with Brenner some of the doom-sayers out there are right – that is to say, that we really are facing a whole set of systemic and intractable problems that are simply not amenable to a quick policy fix. What are those problems? I mentioned declining rates of profit rooted in overcapacity and the desperate attempts to compensate with asset bubbles and orgies of credit creation. You could add a vicious demographic cycle that sees a decreasing percentage of working age people supporting a growing elderly population. Mounting fiscal debts that should theoretically be frightening but

seem not to register on markets for foreign currencies or government bonds even though no realistic scenario exists for bringing the deficits under control – politicians have proven demonstrably unwilling or unable to implement the Keynesian recipe of surpluses in good times to balance deficits in bad. And thus the snowballing deficits engender so much dread in so many quarters that governments cannot today resort to the one proven method of restarting a stagnant economy: fiscal stimulus. On top of this, the effectiveness of monetary policy appears exhausted as zero interest rates and bouts of quantitative easing bring on all the visible results of vigorous pushing on a wet noodle, to choose a phrase deliberately. All the while, interest groups hold hostage any government that threatens to reduce their benefits, no matter what the cost to the broader society.

To a greater or lesser degree, these are the policy challenges that face every developed world government – and if certain pundits are to be believed, will soon face the new superpower that seems to be rising on the far shores of the East China Sea. But aren't these problems familiar to those of us who live here or are otherwise involved with Japan? Indeed, so familiar as to be almost old hat?

It just may be the case, therefore, that Japan is Still Number One – or at least out there in front – in figuring out how to manage the aging of society, how to spread the pain when employment levels stubbornly refuse to recover, how to keep things from falling apart when no matter which monetary lever you press, nothing seems to happen, what to do when your currency keeps rising no matter how low you cut your interest rates or how much jawboning you do, how to keep your would-be pensioners/retraités or Tea Party equivalents from destroying the social and political bonds that are needed to maintain some sort of functioning political order. And that in the workings of the Japanese political economy that Ezra has described for us are still to be found some very important Lessons for America – and for everyone else.

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