10. Japan – The Asian Model

Historical background
- geographical isolation
- the role of Confucianism in economic thought
- Meiji Restoration 1868
- strong role of the state in industrial dev’t
- Zaibatsus
- Economic miracle (1946-1990)
  - High growth rate, high savings, persistent trade surpluses, low unemployment, high life expectancy, equality

The Foundations of the Asian Model
- Abundance of labor → Lewis two-sector model
- Keiretsu system
- Managerial decision-making
- Labor markets
  -
- Microeconomic industrial policies
**Lewis two-sector model**

Traditional (agricultural) sector

**Lewis two-sector model**

Modern (industrial) sector

---

**The keiretsu system**

- looser in structure than zaibatsus
- ________ keiretsu (conglomerates)
  - firms in different industries held together by a common bank or a trading company
- ________ keiretsu
  - a set of suppliers and distributors linked to a major industrial producer by long-term contracts
- cross-ownership (family ownership)
- banks carry a vital role in the life of keiretsus
Managerial decision-making

- J-mode type of organizations
  - horizontal coordination among competing units
  - consensual decision-making – discussion with virtually everyone involved
  - encouraging input from bottom-up (memos)
  - long-term nature of employee-firm and bank-firm relations allow long-term horizon for strategic planning
- H-mode in the US and Europe – hierarchical separation between planning and implementation

Labor Markets

- Lifetime employment
  -
  -

Average Employment Longevity in Selected OECD Countries (percentage of workforce)

<table>
<thead>
<tr>
<th>Country</th>
<th>1 year</th>
<th>1-5 years</th>
<th>5-10 years</th>
<th>10-20 years</th>
<th>More Than 20 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>21.4</td>
<td>39.3</td>
<td>16.2</td>
<td>13.2</td>
<td>8.1</td>
</tr>
<tr>
<td>Canada</td>
<td>23.5</td>
<td>31.9</td>
<td>15.2</td>
<td>19.4</td>
<td>10.0</td>
</tr>
<tr>
<td>Finland</td>
<td>11.9</td>
<td>37.5</td>
<td>16.7</td>
<td>21.4</td>
<td>12.8</td>
</tr>
<tr>
<td>France</td>
<td>15.7</td>
<td>26.3</td>
<td>16.2</td>
<td>25.6</td>
<td>15.8</td>
</tr>
<tr>
<td>Germany</td>
<td>12.8</td>
<td>28.5</td>
<td>17.8</td>
<td>24.5</td>
<td>16.7</td>
</tr>
<tr>
<td>Japan</td>
<td>9.8</td>
<td>27.6</td>
<td>19.7</td>
<td>23.7</td>
<td>19.3</td>
</tr>
<tr>
<td>Netherlands</td>
<td>24.0</td>
<td>38.4</td>
<td>11.4</td>
<td>13.2</td>
<td>11.0</td>
</tr>
<tr>
<td>Norway</td>
<td>14.9</td>
<td>29</td>
<td>19.7</td>
<td>24.1</td>
<td>12.3</td>
</tr>
<tr>
<td>Spain</td>
<td>23.9</td>
<td>22.5</td>
<td>14</td>
<td>21.3</td>
<td>18.4</td>
</tr>
<tr>
<td>Switzerland</td>
<td>17.6</td>
<td>32.3</td>
<td>16.8</td>
<td>18.8</td>
<td>13.8</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>18.6</td>
<td>36.2</td>
<td>16.4</td>
<td>19.2</td>
<td>9.6</td>
</tr>
<tr>
<td>United States</td>
<td>24.8</td>
<td>32.9</td>
<td>11.7</td>
<td>17.8</td>
<td>8.8</td>
</tr>
<tr>
<td>Unweighted average</td>
<td>18.6</td>
<td>31.8</td>
<td>16</td>
<td>20.5</td>
<td>13</td>
</tr>
</tbody>
</table>

Labor Markets

- Seniority wages
  -
  - consistent with the
  - slows down

Overall, labor markets are a mix of the Anglo-Saxon and the European model.
- lifetime employment _______________ in practice
- flexibility through _______________ and
Microeconomic industrial policies
- originated with the Ministry of International Trade and Industry (MITI) → now METI (2001)

why industrial policy?
- existence of economies of scale, public goods, capital market imperfections
- the keiretsu system encourages ______
- if markets are left to themselves, the long-run ______ is not attained

→ gov’t intervention can shape market structure to a more efficient use of capital and the industrial policy can speed up the operation of the market

MITI’s intervention related to product cycle

Success?
- some targeted industries very successful exporters (shipbuilding, steel, computers…)
- some successful exporting industries were not targeted (cameras, tape recorders, robotics…) (Sony, Honda…)
- some targeted industries failed (5th gen. computers)

Macroeconomic performance
Macroeconomic performance

Reasons of economic success
- transfer of labor from the agricultural sector to industry
- high growth of capital investment  
  - high savings rate
  - close relations between firms and banks
- sharing of growth  
  - heavy investment in human capital (education)
  - helping rural areas not to fall behind
  - income inequality did not increase
- outward-oriented policies (export promotion)

Macroeconomic performance
Macroeconomic performance

The Bubble Economy

- early 1980s ↓ growth due to a recession in the US
- US recovered by 1983-84 →
  - __ imports from Japan
  - __ trade imbalance
- The 1985 Plaza Accord → __________ of the Yen
  - by 1988, Yen doubled in value against the $
- Japanese gov’t pursued expansionary monetary policy to stimulate domestic demand
  - __ money supply + __ discount rate

The Bubble Economy

- very little inflation, but caused a bubble economy
  - __ financial speculation
  - __ in real estate value
    - 1985-89: commercial property value ↑ 10x
  - banks took out loans backed by ↑ property values to purchase securities
    - 1985-89: Nikkei tripled
  - fueled a spending spree by companies
    - 1987-90: growth 5%, while 3% in the US and Europe
**Economic troubles 1990-**

- 1989: Bank of Japan restricted the monetary policy and ↑ the discount rate → the bubble burst
  - 1989-96: real estate and stock prices ↓ 50%
  - ↑ in bad debts and bankruptcies
  - growth <1% between 1991 and 2003
    - growth picked up in 2004
  - increase in unemployment
  - decrease in the price level
  - decrease in consumer confidence

**Economic troubles 1990-**

**Reasons**

- burst of a stock market bubble & collapse of land prices
- bad loans in the bank sector
- outflow of capital (financial deregulation)
- ↓ savings due to ↑ dependency ratio
- lifetime employment and seniority wages
- close to the “technological edge”
- low consumer confidence → low __________
- liquidity trap

**Summary**

- market economy with the strong role of the government – elements of a planned economy
- presence of strong traditional values
  - stems partly from Confucianism → family-oriented approach

**Future**

- growth picked up
- Japan’s has undertaken reforms – financial, corporate, labor
- ageing population?