INTERNATIONAL JOURNAL OF BUSINESS, 18(4), 2013 ISSN: 1083-4346

The Japanese Economic and Financial Situation: Where Should We Go and What Changes Are Needed?

Yutaka Kurihara
Aichi University, Department of Economics
4-60-6 Hiraike Nakamura Nagoya 4538777, Japan
kurihara@vega.aichi-u.ac.jp

I. INTRODUCTION

After the world war two and in the 1980s, Japan experienced remarkable economic growth. In the 1990s, however, the country suffered a striking recession with very low, sometimes negative growth rates late in the decade and in the beginning of the 2000s. The main reason for the recession was the country's fragile financial system and structural problems such as delays in deregulation in many areas. In particular, huge nonperforming loans prohibited Japanese banks from investing sufficient funds. International competitiveness suffered a significant decline. Japan's long experience with quantitative easing dates back to 2001. Following a period of zero interest rate policy in 1999–2000, the Bank of Japan (BOJ) introduced quantitative easing in March 2001. Under this policy, the BOJ used purchases of Japanese government bonds as the main instrument to reach its operating target of current account balances held by financial institutions at the BOJ. The BOJ exited quantitative easing in March 2006 amid signs that the economy was emerging from serious deflation. Following the global financial crisis, the BOJ increased the pace of its Japanese government bonds purchases and adopted a number of unconventional measures to promote financial stability. In October 2010, the BOJ introduced its Comprehensive Monetary Easing policy to respond to the re-emergence of deflation and a slowing recovery. One key measure was an asset purchase program that involved government securities as well as private assets. Also, the BOJ introduced a new financial policy in April 2013. It doubled the monetary base to promote economic growth. It will achieve the price stability target of 2% in terms of the year-on-year rate of change in the consumer price index at the earliest possible time, with a time horizon of about two years. The effectiveness of this large and unprecedented monetary-base rule seems effective in recovering the economy and has received much attention not only in Japan but also all over the world. However, it is dangerous to be optimistic. The Japanese economy still remains weak. Consumption has remained resilient. The year-on-year rate of change in the CPI is still about 0%. On the other hand, suppose that the BOJ succeeds in achieving a 2% inflation rate. Without income growth in excess of that goal, stagflation will replace deflation. Japan's crushing debt explains why Abe has so far relied on the central bank. It is bad enough to develop the world's biggest public debt.

Other countries, such as the ASEAN countries and China, improved competitiveness and have come to play important roles in the world economy. On the other hand, the relationship between the US and Japan has been strong continuously. From the 2000s, stock prices in both countries, for example, have changed together.

European recession and crises in those countries have impacted the Japanese economy. Carry trade might have influenced exchange rates. Also, a strong yen has damaged Japanese export companies. Like these factors, economic globalization has been growing continuously.

Japan, as one of the developed and economically advanced countries, and Asia must contribute to the development of the world economy. Globalization has conferred significant benefits on the Japan and Asian economy; however, many factors must be considered in assessing the impact of globalization. The serious economic conditions of the recession may be related to globalization, whose effects include both positive and negative outcomes. This process has affected and will continue to influence the world economy.

This issue examines such problems from theoretical, empirical, and institutional perspectives with a primary focus on Japanese cases that may serve to inform other countries of important lessons.

The authors and abstracts are as follows:

1. "Japanese Monetary Policy: Experiences in Lost Decades" by Wataru Takahashi (Osaka University of Economics)

This paper describes the record of the Japanese monetary policy since the late 1990s from the view of practical experiences as well as theoretical insights. Japan started the so-called conventional monetary policy before other central banks in developed economies. Because the policy has multidimensional aspects, various angles are required to evaluate the effect. Although there is no clear conclusion about their effectiveness in terms of boosting business activities, the zero-interest policy and quantitative easing have clearer effects in the stabilization of the financial system. For last two decades, the main policy task of the Bank of Japan has been to overcome prolonged deflation. This has incurred a challenge for the independence of the central bank, as the established policy framework (e.g., inflation targeting) is well designed to combat inflation but is not necessarily planned to fight deflation. In addition, public debt management, an oft-forgotten business of a central bank, emerges as a new issue not only in Japan but also in other developed economies.

2. "Adjustment Costs in the Japanese Banking Sector" by Kazuyuki Inagaki (Onomichi City University)

This paper examines labor adjustment costs in the Japanese banking sector. The existence of labor adjustment costs affects employment adjustment in response to negative shocks. Therefore, this investigation is helpful to develop an understanding of the impact of the financial crisis on the Japanese banking sector. A measure of the labor adjustment costs is theoretically derived from the dynamic labor-demand model, and its significance can be checked using the Euler equation. Using Japanese data for the period 2001–2012, we found that firing costs are particularly high in the banking sector. This result suggests that the impact of the financial crisis on the banking sector is not removed quickly, as a reduction in employment is extremely expensive in this sector.

3. "Liquidity in Japanese Government Bond Futures Market" by Takeo Minaki (Hokusei Gakuen University)

This paper examines relations among liquidity, transaction costs and risk in the Japanese government bond (JGB) futures market of the Tokyo Stock Exchange (TSE). As a result, an investigation of the relation between liquidity and risk reveals that an increase of volatility increases ILLIQ, which is a liquidity index. This result shows that liquidity falls when risk increases in the JGB futures market. Moreover, when the relation between liquidity and spreads, which are transaction costs, is investigated, ILLIQ increases as spreads widen. Regarding this result, when transaction costs increase, liquidity in the market decreases. Finally, the investigation of the relationship between transaction costs and volatility, which represent risk, reveals that the spreads become larger as volatility increases. These analyses show that transaction costs will increase as risk increases.

4. "On Households Insurance Demand - Evidence from the Great East Japan Earthquake" by Ying Ying Jiang (Hitotsubashi University), Yoshihiro Asai (Meiji University), and Souichiro Moridaira (Waseda University)

On March 11, 2011, following Japan's largest earthquake in recorded history, the country was hit by a ferocious tsunami, and nuclear crisis that resulted in the deaths of almost 20 thousand people and 300 thousand people still live in shelters as of January 2013. This article reports on the findings from a questionnaire survey administered to 1200 Japanese households and analyzes insurance demands after the earthquake. Although some Japanese households bought earthquake insurance after the earthquake disaster, others are relying on savings as a means to combat the next earthquake disaster and have not bought earthquake insurance. However, households that experienced natural disasters before this one have tended to buy earthquake insurance. The findings also reveal that Japanese households in coastal areas and river flood plains tend to buy earthquake insurance.

5. "Public Debt and Inflation Dynamics in A Sticky Price Model" by Daisuke Ida (Okayama Shoka University)

This paper reports on the theoretical investigation of the relationship between the stance of fiscal policy and inflation dynamics. The research focused on the role of public debt in the canonical sticky-price model with simple financial friction. This paper shows that inflation considerably increases in response to economic shocks if the fiscal authority puts a smaller weight on control of the primary debt. A higher interest-rate smoothing policy also is effective in an economy in which the stance of fiscal policy plays a significant role in the determination of inflation dynamics. Simulation results imply that the economy would never fail to experience greater inflation in the near future if the government attempts to accumulate its public debt in the case in which the central bank cannot have the effective instrument to pin down the expected inflation rate.

6. "The Impact of Stock Price and Interest Rate on the REIT Market in Japan" by Takayasu Ito (Niigata University)

This paper analyzes the impact of stock prices and interest rates on the real estate investment trust (REIT) market in Japan. The sample is divided into two subsamples: Sample A runs from March 31, 2003, to May 31, 2007 and Sample B runs from June 1, 2007, to January 10, 2013. Sample B includes financial stresses, such as the collapse of Lehman Brothers and the fiscal crisis in Euro area. The impact of stock price is positive. The wealth effect holds and the stock market leads the REIT market. The positive effect is larger in Sample B. The impact of interest rates is negative. Increases in interest rates mean the decline of REIT prices. The negative impact of interest rates is larger in Sample B. This is consistent with the fact that financial crisis led to the difficulty in fund procurement for REIT investment company in Sample B.

II. CONCLUSION

The target audience for the issue includes scholars in diverse fields, policymakers, and businesspersons with both domestic and international interests.

Many articles have been written about the Japanese economy; however, despite its importance, the recent situation has not yet been fully discussed and understood. A review of the literature produced no journal with features similar to those provided here. By assembling articles by a variety of contributors from some relevant fields, this special issue will contribute to the knowledge base for matters from diverse fields of study and interest from domestic to global politics.