ISSN 2616-7433 Vol. 1, Issue 2: 60-66, DOI: 10.25236/FSST.20190209

The Causes of Japan's Long-term Economic Decline and Its Political Economic Analysis

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ABSTRACT. *The Japanese bubble economy has caused a serious economic recession in the country. In order to get out of Japan's predicament, a series of economic strategies should be adopted, but no significant results have been achieved. The Japanese economy is in the current state of sustained long-term recession, and it contains multiple political and economic factors. This article explores the long-term recession of the Japanese economy, mainly for political economics that it is judged by economic recession, financial and monetary policy failures, structural imbalances, and external economic shocks. It is proposed that the Japanese economy wants to get out of the current recession and needs to achieve comprehensive reform of political and economic affairs to overcome the challenges and long-term development.*

Keywords: *Japanese economy; long-term recession; political economy*

0. Introduction

Since the early 1990s, Japan’s economy has grown slowly and entered a recession. Nobel laureate Paul Krugman believes that Japan’s lost decade is a model of liquidity traps. But our empirical analysis shows that the reason for Japan's economic stagnation lies in its vertical IS curve rather than a flat LM curve[1]. Therefore, the Japanese economy is facing structural problems rather than a temporary downturn. Therefore, this paper attempts to explore from five different levels of economics and politics, only to understand the deep internal factors and the right medicine and take the precautions.

1. Judgment of type of economic recession

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The economic recession, from a common point of view, is mostly caused by the overcapacity of the real economy and the virtual high price of the virtual economy, which leads to the imbalance of the economic structure, but each recession has its different causes, degrees, types and periodic characteristics.

(1) In the early days of the collapse of the bubble economy, Japanese society was generally relatively optimistic about the rapid economic recovery. According to the neo-liberal non-intervention concept, the lack of accurate judgment on the harm of the bubble economy, the deepening of the economic recession and the long-term nature of the technological innovation cycle missed the best opportunity for structural adjustment in the early stage of the bubble economy.

(2) With the continued economic downturn, successive governments in Japan have successively issued a series of comprehensive economic countermeasures, but mainly through the adjustment of traditional monetary and fiscal policies with obvious short-term effects, and lack of structures with long-term effects that require sustained efforts. Transformative response measures such as adjustment, institutional innovation, technological innovation[2], growth mode optimization, and economic transformation. As the implementation of the policy continues to increase, until it goes to the opposite side, it not only damages the long-term stable growth of the economy, but even becomes the bane of the continued economic recession, making structural adjustment more difficult.

2. Monetary policy and financial double failure

After the prosperous and collapsed bubble economy, the unbalanced state of Japan’s economic structure has not been cured for a long time, causing the failure of traditional macroeconomic policies – monetary policy and fiscal policy.

2.1 Mistakes in monetary policy

In the past 20 years, Japan’s economic growth rate has been below 2%, except for individual years and slightly more than 2%[3].

There have been 15 negative growths (see Figure 2). 0 At the beginning of 2016, the Bank of Japan implemented the negative interest rate policy again, both to

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stimulate investment and to induce the yen to depreciate. But contrary to expectations, the direct reaction of the Japanese stock market and the foreign exchange market was the stock price plunging and the yen exchange rate. This again shows that Japan's zero interest rate and even negative interest rate policy has a limited effect. Low interest rates have not stimulated economic growth mainly due to: (1) “liquidity trap“. Although the nominal interest rate has fallen to zero, the real interest rate is still high, that is, the return on capital investment is still lower than the financing cost. This situation does not change, nominal low interest rates and even negative interest rates can not achieve the policy of stimulating investment; (2) "liquidity stagnation." Due to lack of confidence in the prospects for economic development, residents, businesses and even banks have a tendency to hide cash. Especially when the banks also have a tendency to hide and put into practice, the economy will inevitably be trapped in deep crisis and long-term recession; (3) when the lack of effective demand leads to sluggish investment and shrinking investment, the investment-saving curve (IS curve) will shrink. Sexual turning point, and once the reverse turning point is formed, the expansionary monetary policy will not only be ineffective, but even the more dilated and economically shrinking monetary policy failure and the reverse trend.

2.2 Financial policy failure

The failure of fiscal policy is manifested by huge fiscal liabilities that make the Japanese economy very fragile: (1) Due to the accumulation of fiscal deficits, the Japanese government's debt repayment burden is getting heavier. Therefore, whenever the economy improves slightly, the government will have to increase taxation to maintain the operation of the debt economy. Each time the tax rate is raised, the economy that has just recovered will fall rapidly and form a vicious circle. (2) Affected by the fiscal deficit and the imbalance of the external economic structure, the Japanese economy will take the lead in declining whenever there is a problem in the world economy. (3) The role of fiscal policy in stimulating the economy is going to the opposite side. The original intention of fiscal policy to stimulate economic prosperity is being transformed into a potential factor for further economic recession due to the large scale of debt, and even the root cause of the long-term economic downturn and the obstacles to get out of the downturn.

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3. Multiple structural imbalances

3.1 Investment-consumption structure imbalance

As a developed economy, Japan’s consumption has gradually become the main driving force for economic growth. After the rapid growth of Japan's economy, that is, after the completion of industrialization and urbanization, the contribution rate of consumption to the economy has been stable at more than 50%. However, the deep recession caused by the collapse of the bubble economy has caused a sharp contraction in investment and consumption. Since then, investment-driven innovation drivers have been insufficient,[4] and the long-term downturn in consumption has also curbed the upside of consumption-driven economic growth. Due to the unbearable pains of structural reforms, the Japanese government repeatedly used expansionary fiscal policies to regulate and control. The results were not only limited in effectiveness, but with the increase of regulation and control, the government debt burden of expanding scale became more and more serious. As a result of drag, consumption as a main driving force for economic growth in developed economies is constrained.

3.2 Income-distribution imbalance

The imbalance between the structure of income and distribution not only makes the public investment and corporate growth priority advertised by 'Abenomics Economics' fail to achieve the expected growth of dividends, but also inhibits the consumption-driven Economic Growth.

3.3 Population - Employment Imbalance

The collapse of the Japanese bubble economy triggered a recession in the economy, which coincided with the long-term trend of Japan's population aging and aging, which made the Japanese economic recession and the aging of the population form a long-term structural relationship. The population structure and employment structure are, in the final analysis[5], the issue of the structure of production factors. The first is the crisis caused by the total population size, the second is the crisis

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caused by the age structure, the third is the distortion of the age structure of the unemployment, and the fourth is the financial distortion of the aging population.

4. The shortcomings of the political mechanism

4.1 Short-lived government cannot propose long-term economic policies

The short-lived phenomenon of the Japanese cabinet has both the factors of poor government economic performance and the factors of political system defects. Because the short-term effective policies are difficult to solve the problem of long-term structural imbalances, the economic policies implemented by successive Japanese cabinets after the collapse of the bubble economy have not been effective, and have become the main economic factors leading to the short-lived government. From the perspective of political factors, after the Second World War, the government established by Japan was a democratic country established in accordance with the principle of power restriction. In the period of rapid economic growth, the long-ruling Liberal Democratic Party has always been the largest party to control the Senate and the House of Representatives, and the regime is very stable. However, after the Japanese economy entered a downturn, the defects of the polity design were highlighted. Excessive checks and balances and political parties and fighting forces led to frequent government turnover.

4.2 The ruling party's short-term economic false recovery caused by the vote

On October 31, 2014, the Bank of Japan announced an additional loose monetary policy, and the Japanese stock market hit a new high for the year[6]. Abe took the opportunity to announce the dissolution of the House of Representatives in advance of the general election. Along with the short-term false prosperity of the economy, Abe has laid the foundation for a long-term ruling, but it has laid the foundation for the long-term economic recession.

5. The open economy brings external shocks

Under the conditions of an open economy, a country's economy can benefit from

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both domestic and international markets. No economy can close itself without paying a heavy price. At the same time, any country's economy can't avoid external shocks. If you are not immune and adaptable, you are easily rushed. Due to weaknesses in the long-term imbalance of the Japanese economy itself, Japan’s economic recession after World War II was almost entirely caused by external shocks. After the collapse of the bubble economy, Japan’s economic recovery has also experienced two major external shocks, and each time it was suppressed during the period of economic recovery and growth. To Japan, what is even more serious is that under the current dollar-based international monetary system, the Japanese economy and the Japanese yen are often placed in speculation and risk aversion.

6. Conclusion

The factors that have caused the Japanese economy to fall into a long-term recession are complex and diverse. In summary, there are both the bubble economy and the market failure factors of its collapse, as well as the government's failure to prevent the economic crisis, poor supervision, and poor governance; there are both direct and indirect factors; both economic and political. Cultural, conceptual, institutional and many other factors.

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