



## Farewell to Mega-pessimism

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After a long period of extreme pessimism, Japan is changing, and this change is attracting overseas attention. As suggested by past buzzwords “Japan passing” and “Japan nothing,” this Far East country has tended to be disregarded, almost neglected, but today global interest in Japan has revived. Japan is also favorably regarded by Asian countries, with the exception of neighboring China and the Koreans.

Let me refer to the findings of a recent survey conducted in March–April 2013 by the Pew Research Center based in Washington, D.C. According to the survey, 33% of Japanese citizens surveyed are satisfied with the country’s economy and other general conditions and 40% expect that they will become even better in the next twelve months. Certainly these positive responses represented fewer than half the respondents, but the responses to the same questions posed by the survey in 2002 were just 12% and 11%. Focusing on the respective 13 and 24 percentage point



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increases in 2012, the Center explains that the public mood has obviously improved and this possibly explains the high approval rating of 71% for Prime Minister Abe Shinzo. The Center also shows an interest in the points that the support base for the Liberal Democratic Party (LDP) has now spread to large cities and surrounding urban areas, after traditionally being confined to rural areas, and that there is little difference in the prime minister’s popularity rating across genders, age groups, income groups or education groups.

The upward change in the country’s mood is regarded as desirable in many other countries. In the Philippines, 62% of respondents are positive, while 15% are negative. In Malaysia, the numbers are 53% and 9% (with 38% answering undecided) and in Indonesia, 46% and 11% (42% undecided). In Australia, the numbers are 30% and 16% (56% undecided).

In contrast, in two neighboring countries, South Korea and China, 85% of the respondents were negative while positive replies came from merely 12% in South Korea and 9% in China.

However, Mori Yoshiro, a former prime minister, appreciated China's supportive attitude toward Tokyo's 2020 Olympics bid.

## **Exiting the CRIC Cycle**

The shift to a positive attitude is seen in governmental economic policies and corporate management. Japan's policies are exiting from the CRIC cycle described by economist Robert Feldman.

According to the CRIC cycle, when a crisis occurs, authorities take a stopgap response action to improve the situation to some extent. That leads to complacency and resulting postponement of painful reforms. The economic structure resultantly remains unchanged and the stopgap action becomes ineffective. Thus, another crisis occurs. To respond to that, another stopgap action is taken. After some improvement is achieved, authorities relax their attention and again put off dealing with the issue.

After the collapse of the so-called 1955 System in 1993, many coalition governments comprising different combinations of parties, based on different policy principles and with short life spans came into being. Each discussed painful structural reforms, but another government would replace it before the reforms were put into action. Eventually, stopgap policies alone were instituted. As schemes and reforms were repeatedly discussed, the public felt as if the structural reform had made some progress. Without any reform implemented, there emerged an argument on the pain of the reform, which might have led to mounting objections to the reform. In many cases, it should be said that the pain resulted rather from repeated postponement of the necessary reform.

While the CRIC cycle was repeated, government deficit swelled and the potential growth rate declined. It is under these circumstances that so-called Abenomics was launched. Its missions are to pull the Japanese economy out of the CRIC cycle and through structural reforms turn around the constant downward trend in the potential growth rate after the bubble burst.

Among the three "arrows" of Abenomics, the ambitious monetary relaxation and flexible fiscal policy are an upgraded version of conventional counter-cyclical policies, and they are effective as short-term economic stimulation measures. Before Kuroda Haruhiko assumed the post of governor of the Bank of Japan (BOJ), the BOJ repeatedly questioned the effect of the zero-interest-rate policy and quantitative easing policy. The central bank itself may have cancelled its announcement effect, which is vital to financial policies.

Under Kuroda's control, the BOJ is implementing an unprecedented quantitative and qualitative easing policy, emphatically advertising it as definitely effective.

## **World Focuses Attention on Structural Reform**

The first two arrows of Abenomics – monetary easing and economic stimulation – helped propel the economy upward. Yet the third arrow, which corresponds to structural reform, is decisively important for continued growth and an increased potential growth rate. Both the Organisation for Economic Co-operation and Development (OECD) and the International Monetary Fund (IMF) gave high marks to Abenomics and expressed their expectations in their latest reviews on the



Japanese economy, but also commented that it was essential to implement all three arrows as one. They focus attention solely on the developments of the remaining arrow.

Those surrounding the prime minister say that the priority of his government is economy, economy and economy, followed by long retention of his office. To make his government a long-lasting one, it is necessary to strengthen the economy and maintain his own health. The Diet is no longer divided. If the government has a long life span, it takes two or three years, or possibly longer until its effect is seen. Before that, it will be possible to carry out painful policy.

The Abe government dubbed the extraordinary Diet session that started on October 15 a session for implementing the growth strategy. In his policy speech at the beginning of the session, Abe stressed his position, saying, "What should be done [as a growth strategy] is clear. There used to be many similar growth strategies. What makes mine different from any other is whether or not it is implemented. No growth is achieved without implementation." However, as of the time of the speech, these were still only words. Other countries wait to see what specific structural reform policies will be implemented.

## Entrepreneurship Almost Lifted from Pessimism

Japan's long-lasting deflation commenced in 1998, and this marks its fifteenth year. The deflation is due largely to the contraction, or deflation, of entrepreneurship, or to negative business management. Since 1998, the corporate sector has engaged in easygoing management heavily dependent on personnel cost cuts for short-term earnings improvement instead of carrying out drastic reform of the entire business management and attempting to construct a new business model. For instance, certain home electronics manufacturers now enduring a business crisis must be questioned as to how many new products they created that dazzled the world in the past two decades.

If a business is sustained for a long time merely by cutting job costs, anyone can be a business manager. This is business administration with deflated entrepreneurship. During the fifteen years of deflation, household income has continued to shrink and the household savings ratio has fallen to 2% or 3%. Companies have scarcely appropriated their gains secured by cutting wage costs toward investment, and instead piled them up as liquidity in hand. The whole corporate sector may have had a savings surplus for the first time in the history of modernization of the Japanese industry.

This structure, however, is not sustainable. When the corporate sector downsizes household income, it serves to downsize its own market. Continuation of this structure over the long term leads to emergence of a vicious circle of economic transplanting. A fallacy of composition is thus generated.

However, the entrepreneurial spirit appears to have bottomed out, and is bouncing back. There are signs of movement in investment in capital and in research and development investment. The government calls for a wage increase, and some companies are departing from management that was excessively dependent on wage cost contraction. Some may argue against governmental calls for salary hikes, but there is no doubt that many businesses were horribly unaware that the whole economy would grow increasingly contracted if they continued to slash wage costs over the long



term and neglect developing new business models, products, technologies and domains.

Businesses must also exit from the CRIC cycle. We will be monitoring the fact that there is now a sign of the end of mega-pessimism that took root in the business world and all of society.

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