The Land of the Setting Sun

Examining Japan’s Lost Decades
Edited by Yoichi Funabashi and Barak Kushner
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Reviewed by David Plott

I spent four years as a teenager in Japan, and when I left in 1970 to return to the United States, I was in love with the country’s people and culture, and determined to follow what happened in this place where I had spent such formative years. A decade later, I read with great interest when I left in 1970 to return to the United States, workers and policy-makers alike looked to the rise of Japan with both admiration and trepidation. Japan as Number One: Lessons for America (1979). It was a time in the US when workers and policy-makers alike looked to the rise of Japan with both admiration and trepidation. By the 1980s, when Japan’s spectacular economic performance was in its heyday, it seemed that America would be eclipsed by an increasingly prosperous and globally engaged Japan — much as the US now worries about being overtaken by a rising China. But by the last trading day of 1989, when the Tokyo Stock Exchange reached its all-time peak, the wax-winged wings of Japan’s Icarus had come too close to the rising sun, Japan’s economic miracle melted and came tumbling back to earth.

Thus began what is now called Japan’s “Lost Decades,” more than 25 years of economic stagnation and political paralysis unprecedented in modern history. This volume, Examining Japan’s Lost Decades, edited by Yoichi Funabashi and Barak Kushner, is a comprehensive and sobering account of the abject failure of Japan’s political, bureaucratic, financial and corporate leadership to make and implement the decisions necessary to put the country back on the right course. From the beginning of the 1990s until now, I, like so many other observers, have watched with bewilderment and alarm at the seemingly inexorable inability of Japan to get its act together, especially in the face of China’s rise and the progress of so many other East Asian economies.

What is clear from the 15 superb essays in this volume is that Japan’s decline was not foreordained. It was the result of a complacent and triumphalist confidence in a system that had led to Japan’s remarkable economic growth after the devastation of the Second World War. That success produced a domestic sense of Japanese exceptionalism, a chest-thumping conviction among Japanese that what had worked in the past would work in the future. They were wrong. For already in the 1980s, when Japan appeared to be at the top of its game, problems were accumulating, including demographic trends that would herald an alarming population decline in the decades ahead and a rapidly aging population; an asset-price bubble that saw property and stock prices reach stratospheric and ultimately unsustainable levels; a system of corporate financing and governance that encouraged, rather than disciplined, moral hazard; and a political system and bureaucracy rife with corruption and insulated from genuine political competition.

When the asset-price bubble burst in the early 1990s, triggering the onset of the lost decades, the initial effects were predictable — economic recession, asset-price deflation and an explosion in non-performing loans (NPLs), leading to a series of bankruptcies in the banking system. In what is a hallmark of the lost decades, the government’s response was too little, too late. The interest rate cuts by the Bank of Japan and the injections of liquidity by the Ministry of Finance were nowhere near adequate to address the downturn. But it was the problem of NPLs — which were “the principal cause of Japan’s economic problems,” writes Keiichiro Kobayashi — that perhaps best illustrated the unwillingness of Japan’s leaders to make tough decisions. Rather than insisting that banks clean up their balance sheets, successive governments effectively swept the problem under the rug. It wasn’t until the early 2000s, under the government of Prime Minister Junichiro Koizumi, that a serious effort was made to address the problem. It has only been since the current government of Prime Minister Shinzo Abe, and his so-called Abenomics, that Japan has finally begun to take comprehensive measures to revive the economy — although not with sufficient vigor in tackling structural reforms. It remains to be seen whether these measures will ultimately work.

But if the absence of the necessary political will to face the country’s problems during the lost decades compounded them, it wasn’t as though Japan in these years didn’t attempt to reform its political system, as Satoshi Machidori argues. Between the first half of the 1990s and the early 2000s, “reforms in the political system took place on a scale comparable to those of the Meiji era of modern state building and the period of postwar reconstruction,” he writes. Unfortunately, those reforms “did not produce the desired results.” The principal reason is that Japan’s political system remained mired in what Machidori calls “plural immobility,” which is “a situation in which multiple actors with decision-making powers undertake diverging policy decisions independently, resulting in a loss of policy direction as a whole.”

But it wasn’t just government that failed to respond to the country’s changed circumstances. Kazuhiko Toyma argues in a fascinating piece that Japanese companies, “trapped by their glory days,” were simply unprepared to deal with globalization. Their rigid, inward-looking corporate cultures blinded them to rapid changes in manufacturing and supply chains brought about by technology-driven globalization. In 1995, there were 141 Japanese companies on Fortune magazine’s Global 500 list; by 2010, there were only 71. “The era of the lost decades was the first time that Japanese firms had to face new Asian competitors: companies from Korea, Taiwan, and China. Somehow Japan, or Japan Inc., had completely shut its eyes to these emerging market champions and ignored them as worthy competitors, only to discover that this was a grave mistake,” Toyma writes. Nowhere was the tale of a faltering Japan Inc. more visible than in the fortunes of that iconic symbol of Japan’s glory days, Sony. It has been blindsided by competitors such as South Korea’s Samsung. While the economic and business underpin-
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The 15 superb essays in this volume are by the likes of Michael J. Green, G. John Ikenberry, Yoichi Funabashi, and others, and they explore the reasons behind Japan’s decline, the challenges it faces, and the path it should take moving forward.

The inept response to the Fukushima disaster and the causes that contributed to it — to which one of the articles in this volume is devoted — tragically epitomized the systemic problems that have plagued Japan during its lost decades. It is not just the Fukushima disaster that had been looming since the 1980s, but also the challenge of China’s rise.

Examining Japan’s Lost Decades is a project conceived by the Rebuild Japan Initiative Foundation (RJIF), an independent think tank founded in September 2011, six months after the devastating earthquake, tsunami and resulting nuclear disaster at Fukushima in March of that year. The inept response to that disaster and the causes that contributed to it — to which one of the articles in this volume is devoted — tragically epitomized the systemic problems that have plagued Japan during its lost decades. Fittingly, the first publication of the RJIF was The Fukushima Daiichi Nuclear Power Station Disaster: Investigating the Myth and Reality, published in English in 2014 and in Japanese two years earlier.

Following publication, the chairman of RJIF, Yoichi Funabashi, who also serves on Global Asia’s editorial board, immediately turned to planning this latest volume. “This need arose because the more we explored the causes and background behind the Fukushima nuclear accident, the more they seemed to overlap — seemingly from their very genesis to their conclusion — with the underlying causes of Japan’s lost decades,” Funabashi writes in the preface to Examining Japan’s Lost Decades.

While the extent and duration of Japan’s problems during these decades are unprecedented, similar challenges exist in Western Europe, and even in China, Funabashi writes, adding, “In other words, the lessons of Japan’s lost decades are lessons for the whole world to learn.”

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