Essay on the lost decade

Business, Company

Japan ranks second after United States for the largest economy in the world. Majority thinks that Japan has smooth events regarding their economic condition. However, the truth is they are also experiencing a crisis in their economy.

The Lost Decade characterizes what happened to Japan during the 20th century which later included the year 2001 to 2010. The after-war political and economic structures of Japan were: regulation of the state economy through incentives like development loans and research and welfare of society. Also it includes attempts to protect the " sunset industries" through cartels so that full employment can be achieved and the liberal loans the key industries and companies chosen by the Ministry of International Trade and Development (MITI) and the Ministry of Finance. These after-war characteristics served as boosters to Japan's economic development; the " made in Japan" label made its name and become a tag of high-quality products. An example was Sony that was famous in creating products and was able to persuade their customers to like and want what they produce.

In the last years of 1980, there were already irregularities in the economic stability of Japan; the dicey asset price bubble in a gigantic scale was operated. The affiliation between the banking system and Japanese firms was intended to make credit attainable even though the quality of investment is poor. Economist Paul Krugman said that banks in Japan easily lent money to people even if they don't know the quality of the borrower and these results to the increase of the bubble economy to outrageous extents.

In 1989, Bank of Japan harshly elevated inter-bank lending charges to retain the increase in check. This action of elevating the charges caused the rupture of the bubble and crashed the Japanese stock market. Assets and equities prices fell that left leveraged to the Japanese banks and made books full of debauched debts to the insurance corporations. Several reasons turned the financial institutions to zombie banks. One is the capital infusions made by the government. Second would be the postponement of the recognition of losses. And lastly, the cheap credit and loans from the central bank made a great impact to the burst of the bubble. These zombie banks were one of the numerous reasons for the unproductivity of Japan's economy. They said that the banks kept on investing funds to unprofitable " zombie firms" to keep them buoyant, in a dispute that they were too big to fail (Schuman, n. p.). The Japan's economy did not recover until this practice had ended (Schuman, n. p.).

The " irrational exuberance" led Japan's economy to almost its death. Too much optimism in the pursuit of money, Japan's stock market, Nikkei was able to reach the height of 37, 189 in 1990 from only 10000 in the year 1984. By the month of July in 1992, it came down to 16000 equal to 57% decrease. The directed investments out of Japan made slower investments in technology at home cut. There were more investments going to the airports, bridges, roads and other infrastructures. In addition, the earthquake Kobe that happened in 1995, which killed thousands of people aggravated the spending of the country. Concurrently, more unemployed citizens were there. The consumers also lost interest in spending their money for essentials. Preferably, they saved and spent only for the necessary things. With the decrease in demand, prices of commodities and other necessities also decreased resulting to the " deflationary spiral downward" effect on the economy. The Central Bank of Japan also then set the interest rate to roughly zero; however, the citizens still remained uninterested with spending. The fall of the banks continued until 1997 were almost all of the banks almost fail and resulted to a lending crisis. The government even invested 1. 8 trillion yen to the main banks of Japan just to keep them going, but it also failed. The Nikkei Index drop made a great impact on Japan. The aforementioned events were the result and in 1996, there were state policies made for them to able to rise to the currently happening crisis. First is to reinforce the monitoring of bank loans; second is to cut public spending, and lastly, the increase in taxes that would result to even less spending. There was also the “ big bang” improvement which involves the following alterations:

- Decrease in the national debt of Japan by 4. 3 trillion yen
- In 1994-1996, withdrawal of property tax relief and personal income
- Raise in the consumption tax from 3 to 4 percent, and
- Budget limit deficits of 3 percent of the GDP until the year 2003

Unfortunately, with the reforms made in 1996, the economic crisis still worsened. Many companies were bankrupt, and the decrease in banking reform, as well as government spending; only led to depreciation. Numerous companies then decided to relocate their businesses to other countries like China wherein the salary of an average worker would be lesser compared to workers native to Japan. Graduates of universities then found it hard to have full-time jobs. According to James Brooke, he reported the measures in which Japan planned to do to overcome the happening crisis. It involved the calling of banks to purge half of the bad loans over the next two years. However, some economists do not believe and said that the package was vague and the tougher plan blocked by parliamentarians, bankers and bureaucrats. To be able to eradicate the bad debts, an estimated $422 billion was offered to the banks to handle the upset loans.

After the economic crisis, the government implemented practices that would help alleviate the event:

- Tightened regulations

- Reduced banks loans

- Sharp decline of reciprocal stock holding

With where they came from, still the banks are hesitant to lend people money outright because the recession is said to continue until the year 2012 that are surprisingly said to continue for the next five years. Fortunately, with the international economy that keeps on strengthening, Japan’s economy sees the light, slowly improving and overcoming the crisis and still indebted to some countries. Recently, Japan mostly relies on exports (70 percent of its products are being exported, while 70 percent of U. S. goods being expended locally) and is expected to make them rise from the pitfall. Changes happened severely in Japan’s way of living and other social and economic factors. There was eradication of the old full employment and they are more concerned with the well-being of the general public. Also, the lending policies of the banks are erased resulting to speedy technological modernizations and ferocious competition. For the economy to continually improve, more background check is done to companies applying for loans. The government also allowed some companies to go bankrupt while bailing out some others because more bankruptcy leads to more unemployment.

The export system of Japan to China would eventually pull Japan out of its recession (Brooke, n. p.).

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