Japan: the miracle years hbr case

Business

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Japan: The Miracle Years What is the so-called “ Japanese Miracle” – How did the Japanese achieve it? GNP increased about 5 times in a span of about 20 years. The country saw a 10.

1% compound rate of growth in 17 years. How: * Industrial Policy: government weighs in on what industries are winners vs. losers, then supports the winners. * Govt agencies worked together to help shape the future growth and create stability: Ministry of International Trade, Ministry of Finance and Economic Planning Agency. Only one political Party (LDP – Liberal Democratic Party) / govt remained uncorrupted * Central bank guided private banks as to what industries they should make loans to. This was all based on economic factors: look for industries with high elasticity of demand, and therefore potential to generate high income.

For example: electronics, cameras, cars, oil refinery. The expanding industries had high demand and a high level of technological change. So, Japan can jump in on it and change, while other countries are stuck with the old technology. * Japan saved more and consumed less. As such, saving money and investing more serves as a catalyst for greater economic growth.

(Exhibit 1: in US, we consume about 70% of GDP; Japan only consumed 63% in 1954, and only 50% in 1971) * Japan also focused less on agriculture and more on industrialization. This helped GDP grow faster as well. (Exhibit 2: US used 4% of its workforce on industry, Japan used 7%) * # of unemployed remained stable, but population steadily increased. As such, Japan was able to decrease their unemployment rate over time – only 1% compared to 5% in the US. Greater employment is another factor in growth (Also in Exhibit 2) *

Exhibit 3 – Net Supply of Industrial Funds by Source: * Own capital / AKA retained earnings. In 1970, a large % of investment in Japan comes from retained earnings; the country is paying out less in terms of dividend payments.

* Little foreign investment – speaks to Japans little faith in other companies; great faith in Japanese Co’s. * Also, raising very little in stocks and bonds. Their market is poorly developed, so this is not the way to raise capital. Instead, investments came from internal support: Banks and private loans. * Exhibit 4 – another representation of how much $ Japan saves, compared to other companies * Exhibit 5 – Japan has lower social security benefits, so there is a higher incentive for people to work hard and save their money * Exhibit 6 – Japan paid only 26 cents an hour, giving the country a tremendous advantage in terms of labor costs, compared to other countries. This cost saving further helps Japan keep up with the costs of new technologies.

In particular, women were paid 1/2 – 2/3 less than men. * Exhibit 7 – Debt was a small percentage of GNP. With low debt, taxes were also low, meaning that more $ could be invested. * Japan has strong political stability. Consistent policies makes businesses want to invest b/c of the predictability and low turnover, making it ideal for investors.

Corruption free bureaucracy * People work together, very little internal fighting; this is easy when everyone is so ethnically similar/homogeneous; great spirit of nationalism, less conflict. Japan benefited from US assistance, relying on US for national growth. * Strong work ethic * The govt saw too much competition/redundancy in the market as harmful, so cartels were legalized. Otherwise, too much capacity would drive prices down. Also believed in economies of scale – kept output (relative to capacity) very very high.

* Huge early focus on market share and growth, while sacrificing profit * Huge focus on education * Low fixed yen valuation * Large investments in new plants / technology * Treated labor force well; loyal culture; weak unions