

Financialisation and Financial Crisis in **Japan**

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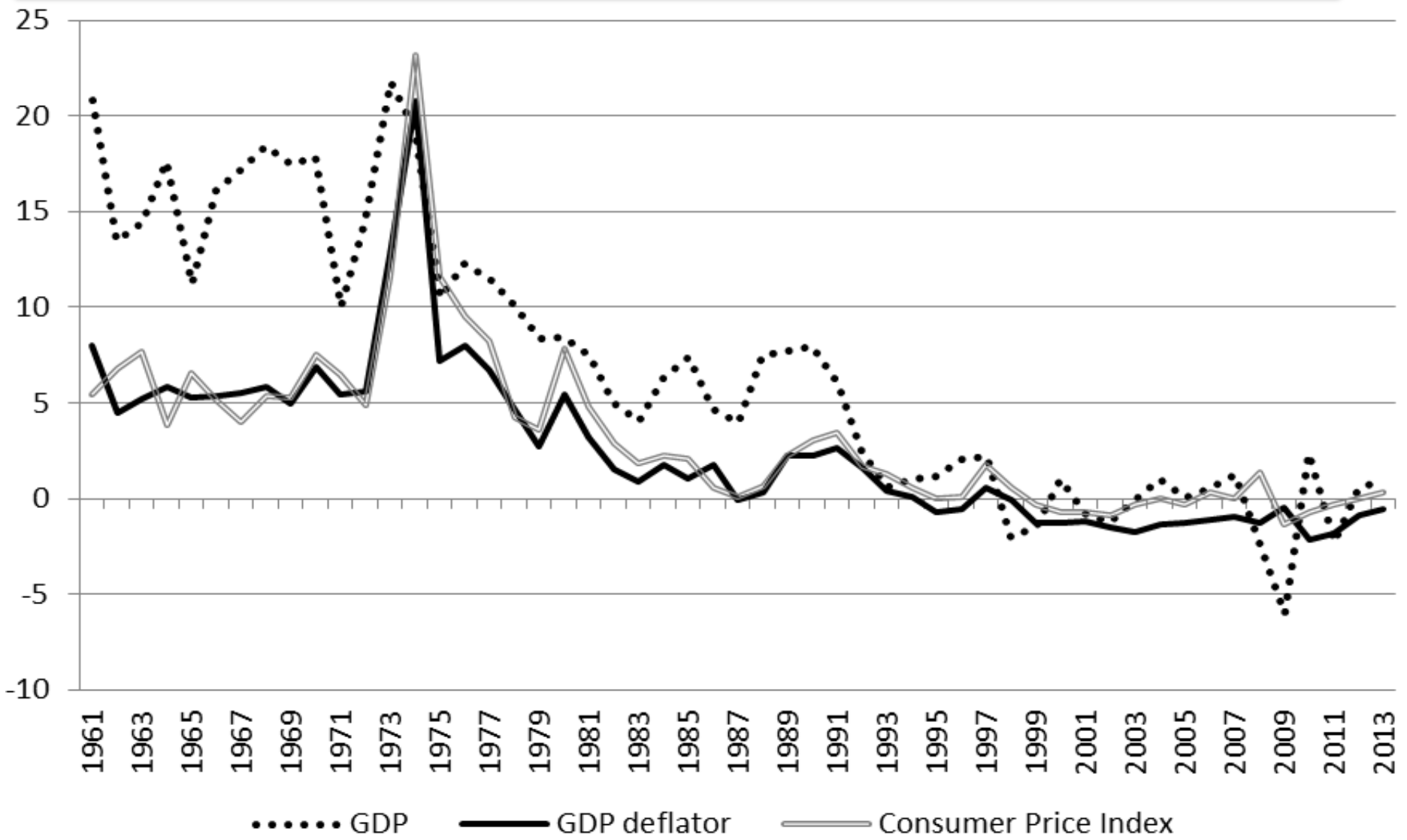
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Structure

- ▶ Macroeconomic indicators
- ▶ The Japanese bubble in the 1980s
- ▶ The mislead economic policy reaction
- ▶ From asset price deflation to goods market deflation
- ▶ Dysfunctional labour market institutions
- ▶ Lessons learned form Japan

Annual real GDP growth rates, consumer price inflation and GDP inflation in Japan

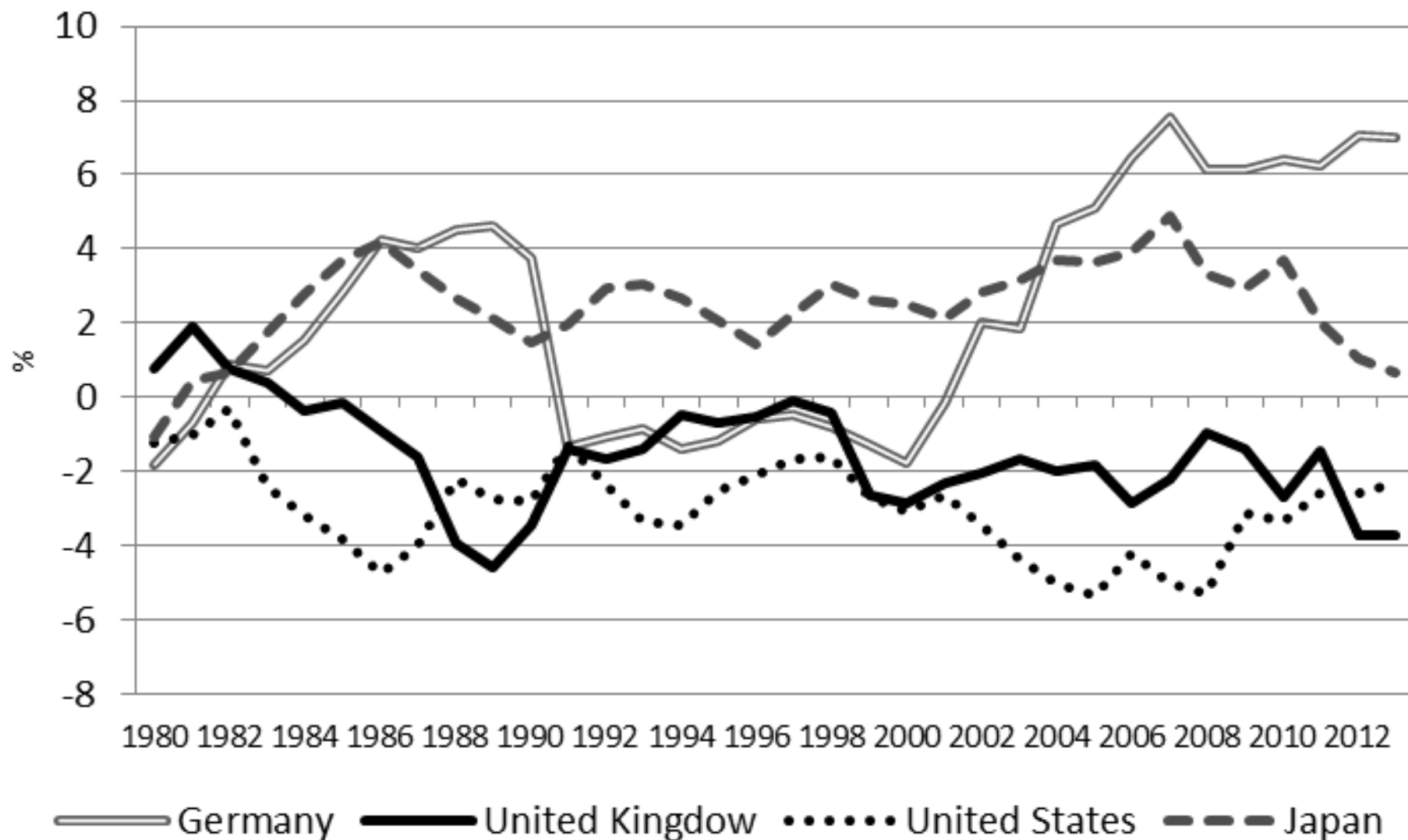


Source: Ameco 2014

Employment (annual percentage changes) and unemployment rate, Japan, 1970-2013



Current account imbalances, 1980-2013 (in % of GDP)



Source: Ameco 2014

The development of the bubble

▶ International pressure

Plaza Accord 1985, Louvre Accord 1987

▶ Expansionary monetary policy

- Expansionary Window Guidance
- Low interest rates

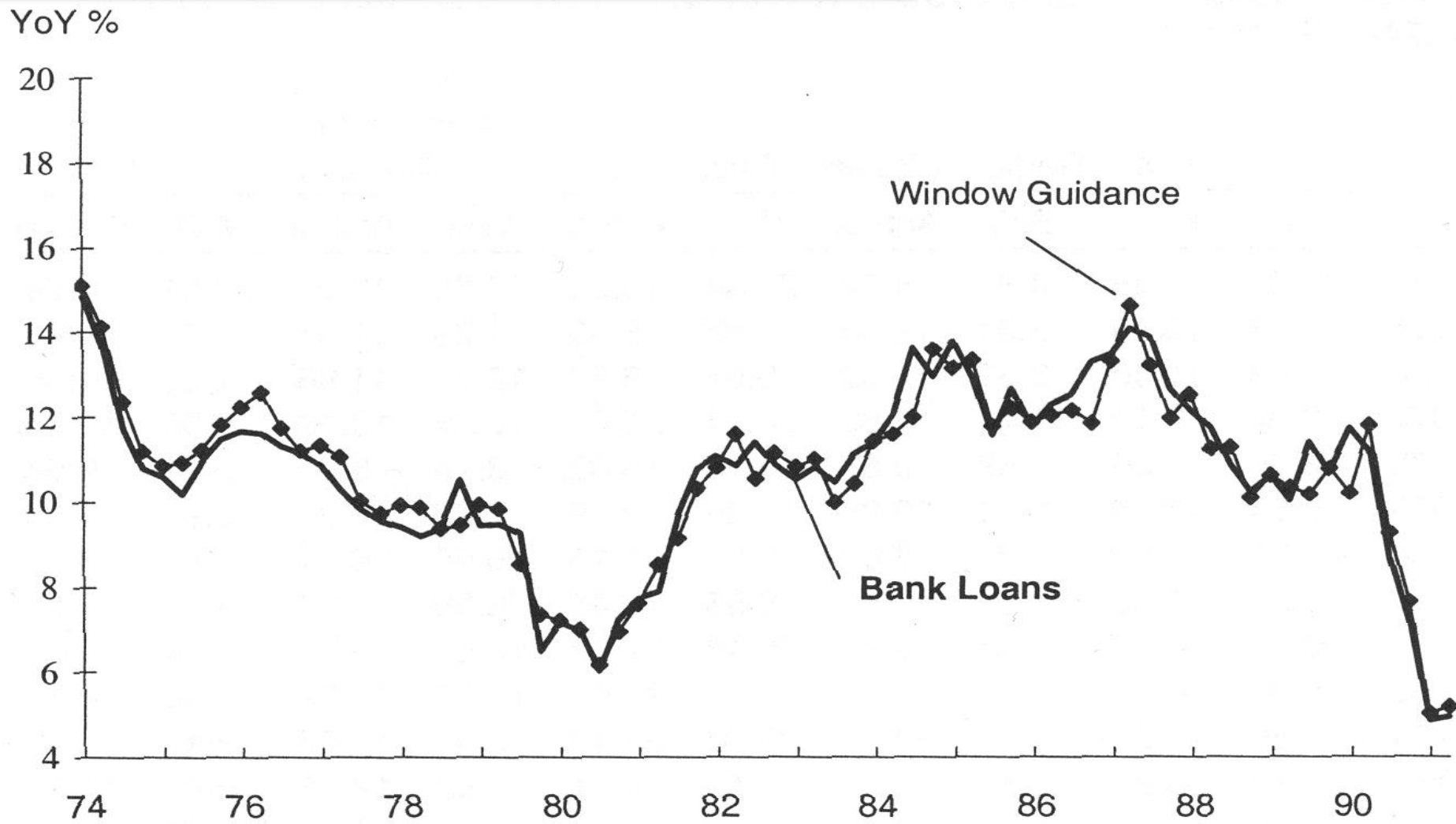
▶ Partial deregulation of financial system

- Banks could enter the debt-security market
- Large companies took credit in foreign markets

▶ A typical bubble

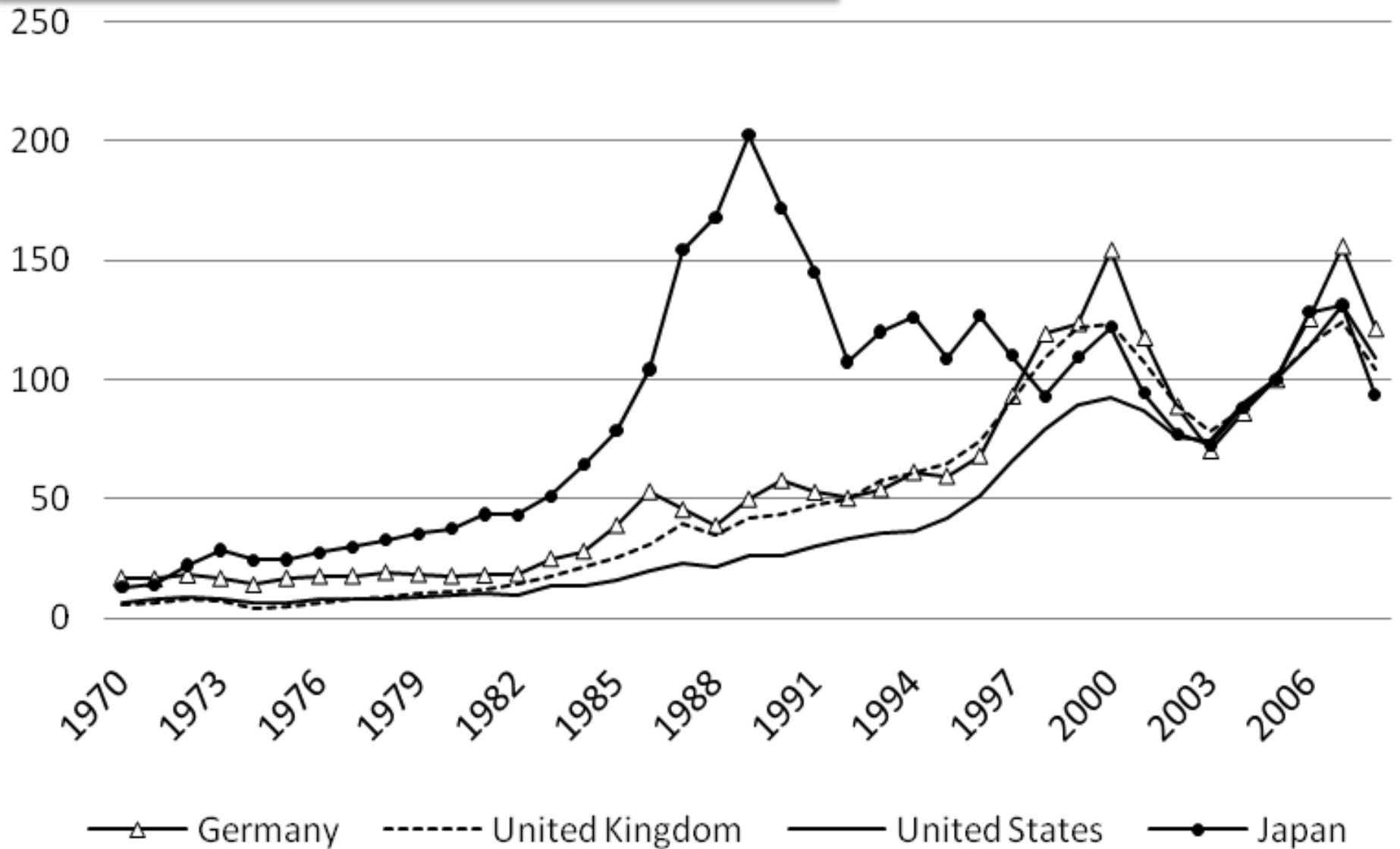
Credit expansion ▶ investment boom ▶ asset price inflation ▶
low-quality loans to the real estate sector and small- and
medium-sized firms ▶ increasing debt quotas ▶ herding
▶ speculation

Window Guidance in Japan



Source: Werner 2003, p. 133

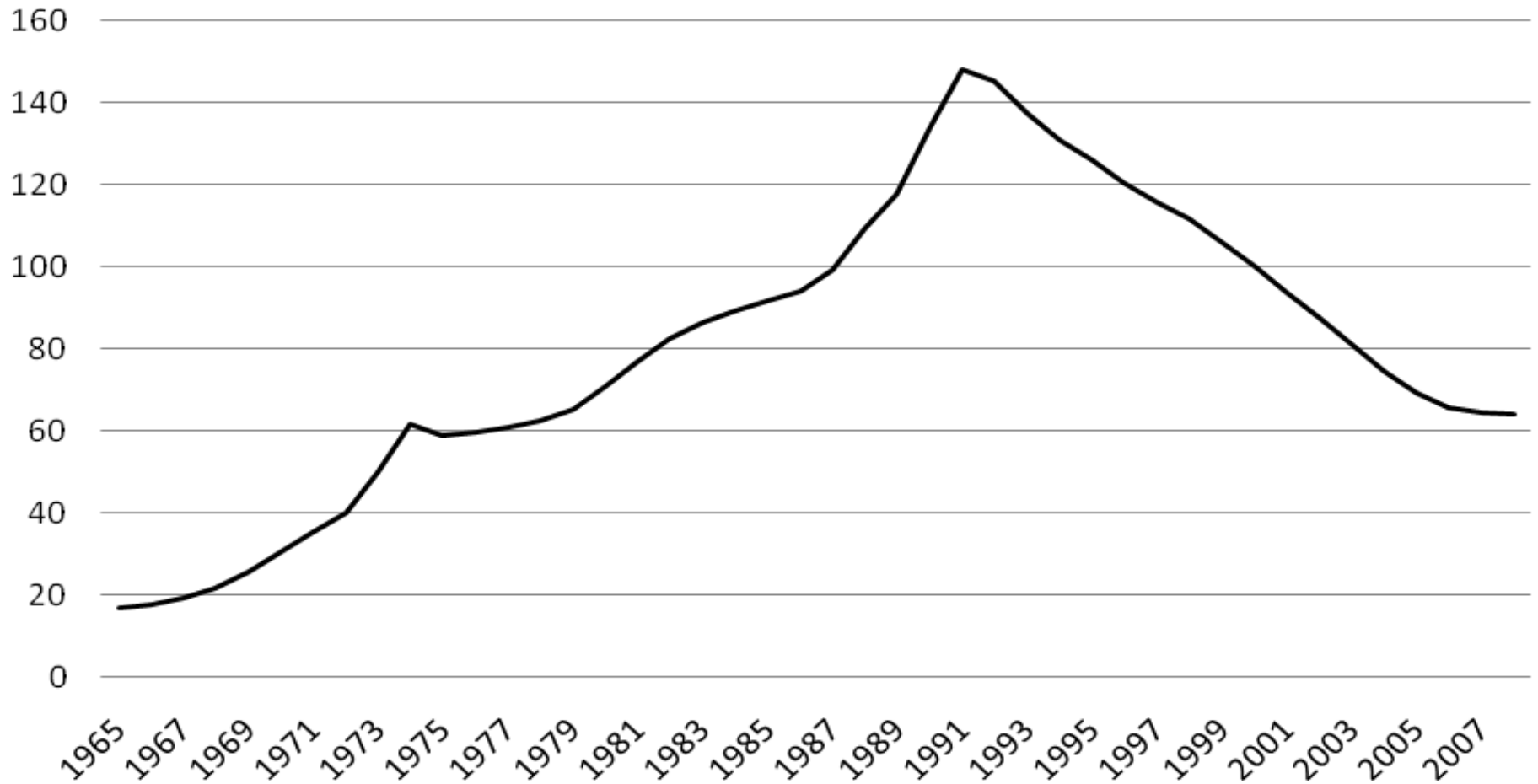
Share Price Development



Source: IMF, OECD

Real estate prices in Japan

Japanese All Urban Land Index, total average



The end of the bubble

▶ **Tightened monetary policy**

Increase in the discount interest rate from 2.5% in 1988 to 6.0% in 1990)

▶ **Lending restrictions for banks**

Especially for credits for real estate, construction

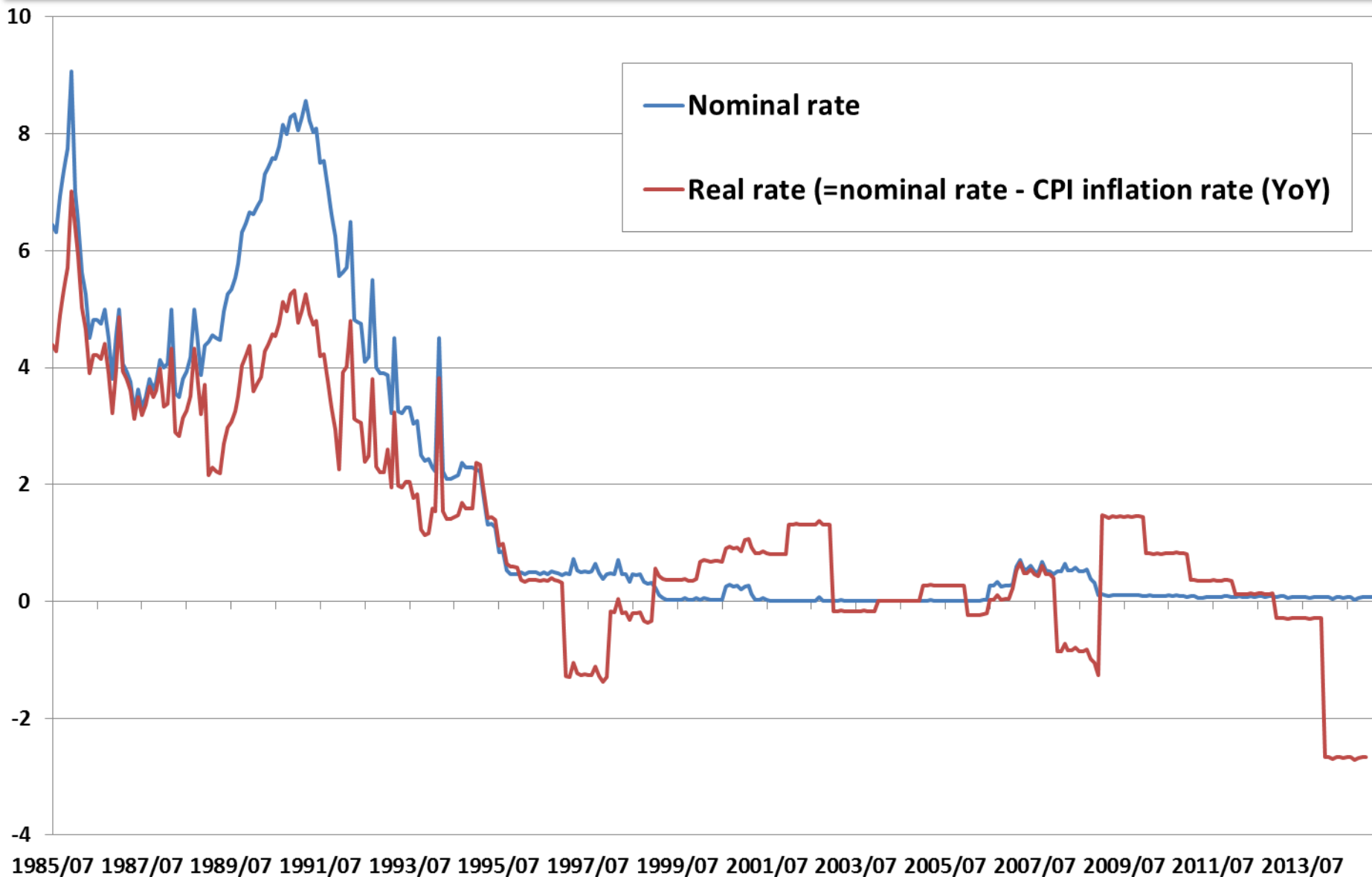
▶ **Asset price deflation**

- Stock market started to fall in 1990
- Real estate market started to fall in 1991

Fighting the asset price deflation and recession after the end of the bubble

- ▶ **Expansionary monetary policy**
however, not quickly and sufficiently enough
- ▶ **Giving up of window guidance system in 1991**
loss of direct control of credit volume
- ▶ **Fiscal stimulation**
however, not sufficient and stop-and-go
- ▶ **Non-performing loans**
Rescue mergers to stabilize the financial system as main strategy, insufficient cleaning of balance sheets

Japan – Real and nominal short-term money market rate

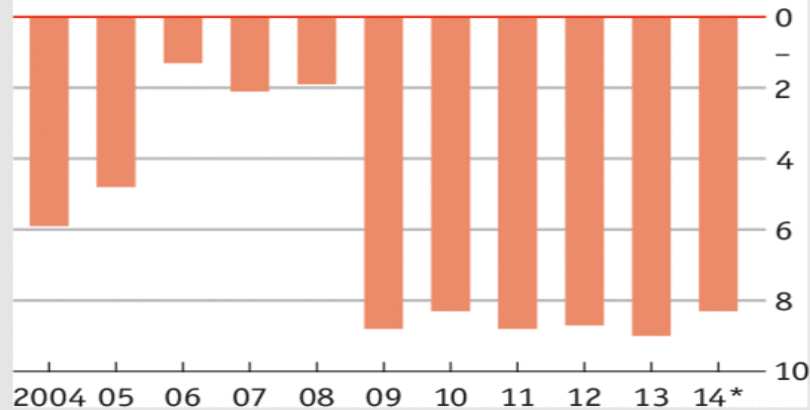


Source: Bank of Japan

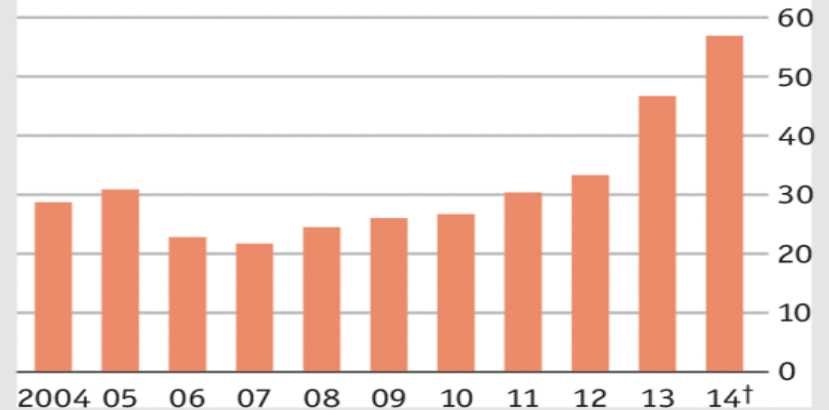
Government budget, central-bank balance-sheet and stockmarket



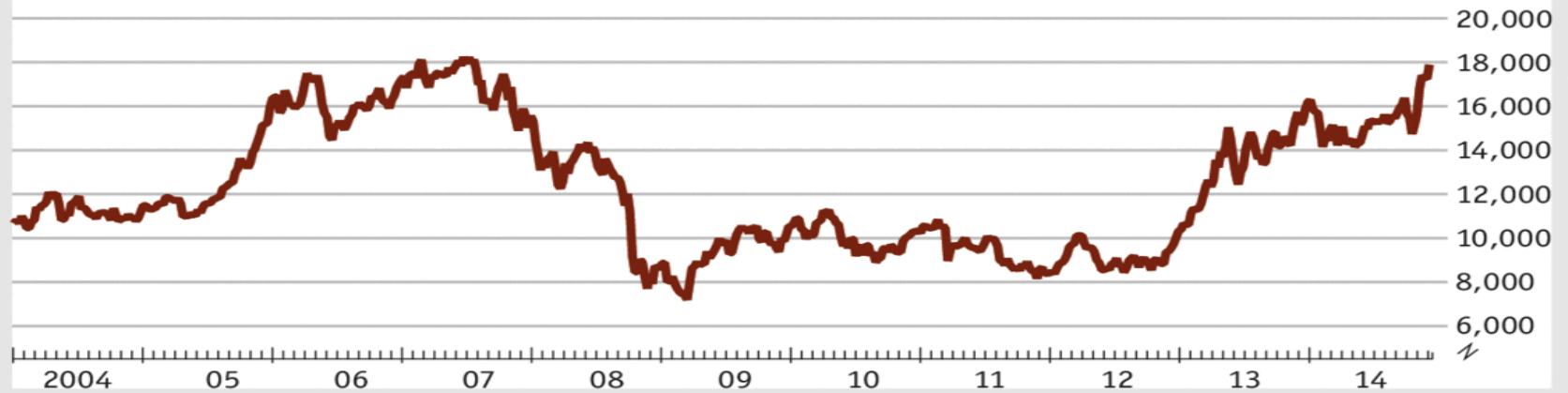
Government budget deficit
As % of GDP



Bank of Japan balance-sheet
As % of GDP



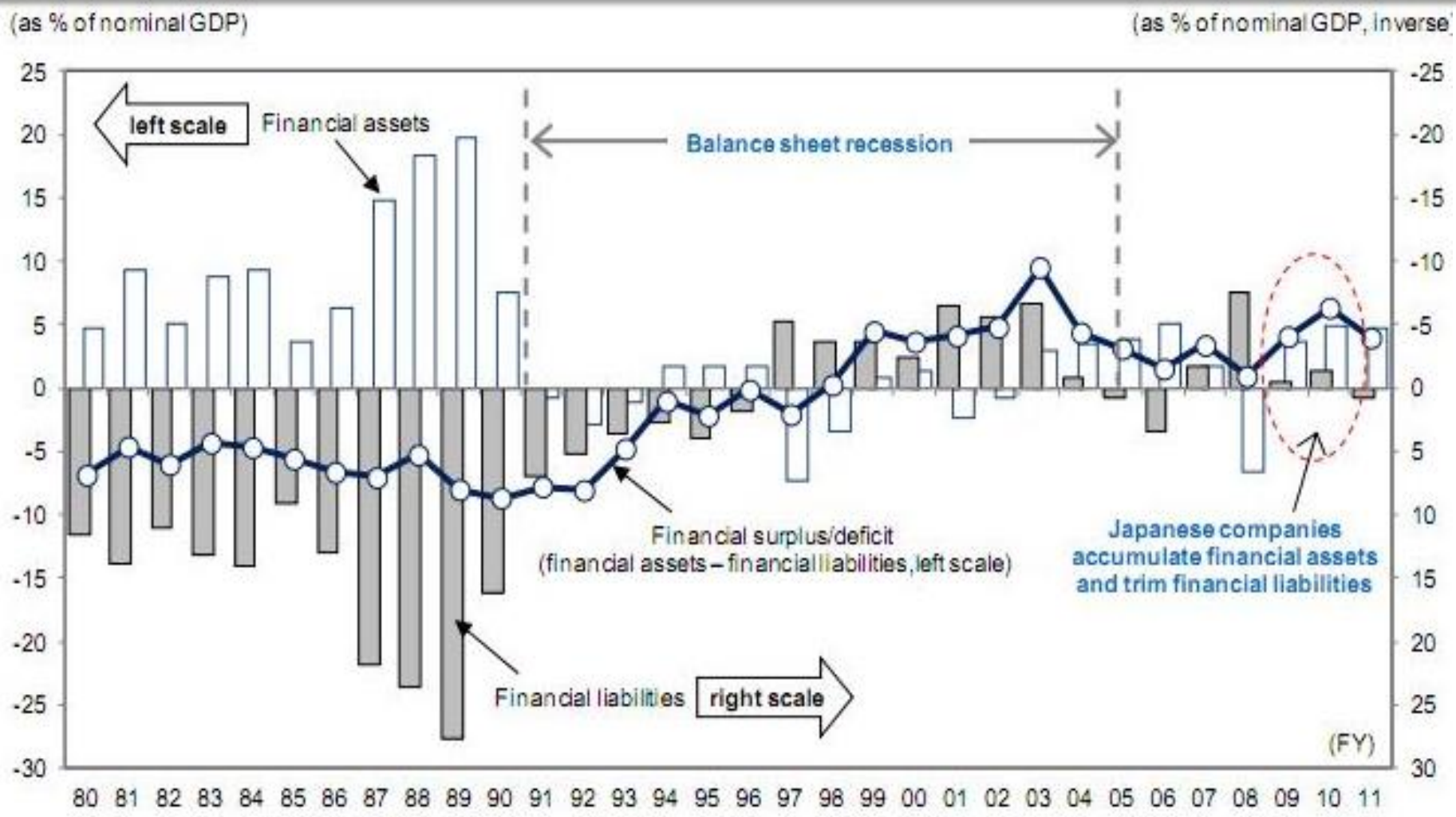
Nikkei 225 share average



Sources: OECD; Thomson Reuters

*Forecast †To Q3

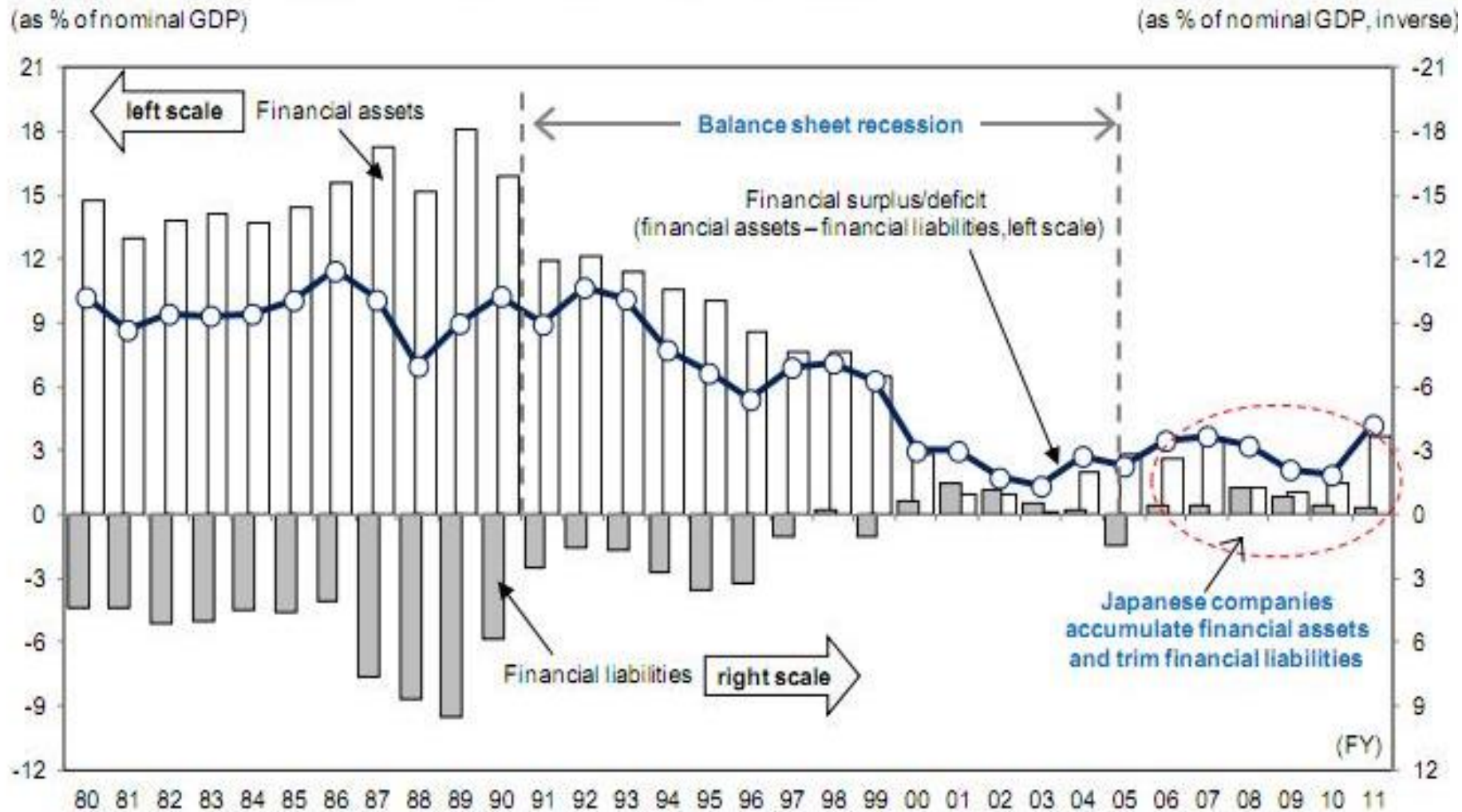
Financial asset and liability flows of non-financial companies in Japan



Note: (1) Adjusted for impact of taking on liabilities related to the JNR Settlement Corporation and the National Forest Service (FY98), privatization of the Japan Highway Public Corporation (FY05), and postal service privatization (FY07). (2) The FY11 figure is the four-quarter moving average through Oct-Dec 2011.

Source: BOJ's Flow of Funds, and Cabinet Office's National Account Statistics

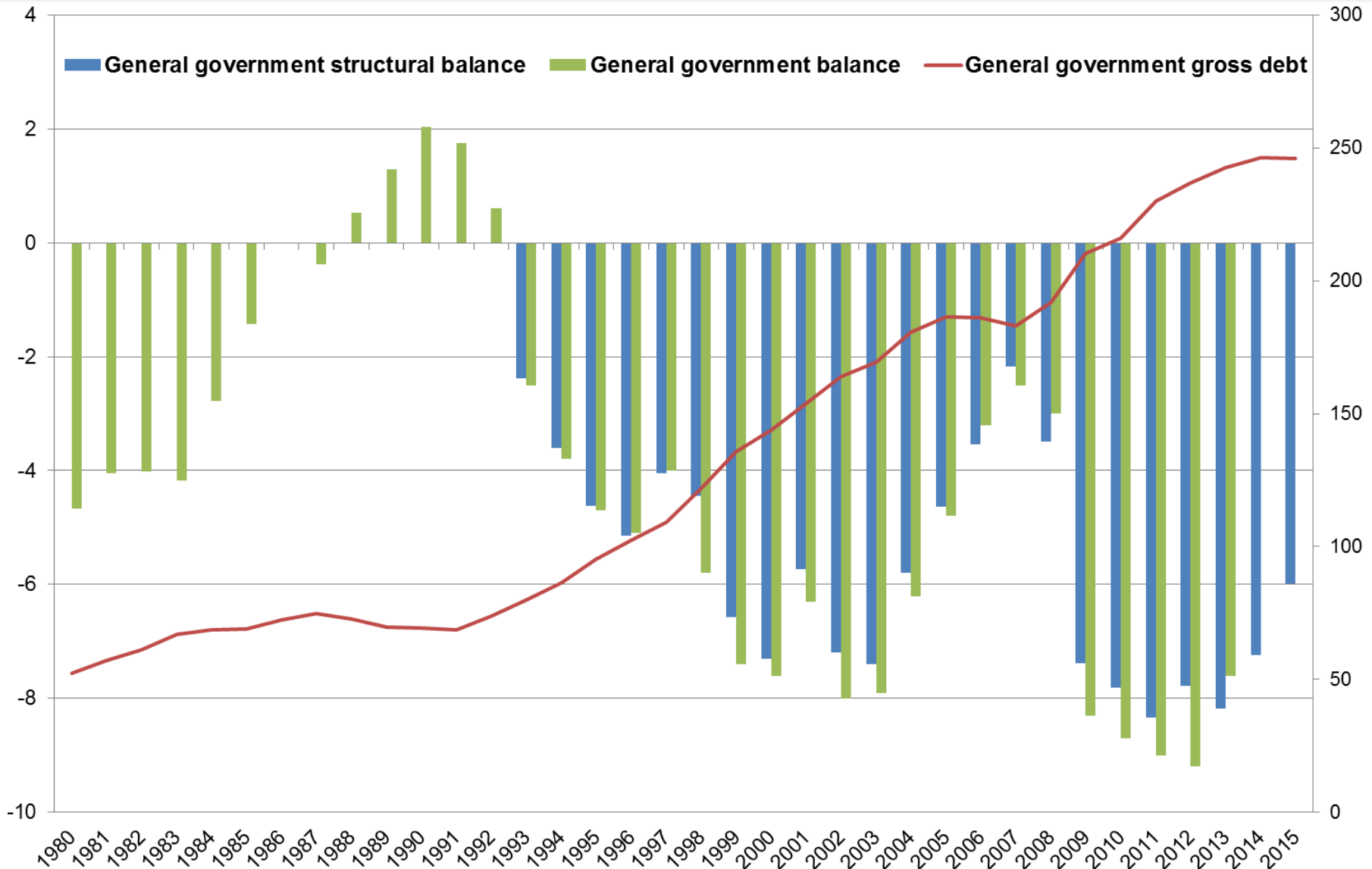
Financial asset and liabilities of Japanese households



Note: The FY11 figure is the four-quarter moving average through Oct–Dec 2011.

Source: BOJ's Flow of Funds, and Cabinet Office's National Account Statistics

General government (structural) balance and gross debt in % of GDP



Source: Ministry of Finance, Japan, World Economic Outlook 2015, IMF

The way to deflation and stagnation

▶ Permanent creation of non-performing loans

- No quick reduction of non-performing loans
- Low GDP growth and asset price deflation led to more non-performing loans
- Later real debt burden increased as the result of deflation

▶ Asian crisis shock 1997 and Russia 1998

- The non-performing loan problem escalated
- In 1999 the Resolution and Collection Corporation (a semi-governmental body) is formed to buy non-performing loans
- 1998 and 1999 nationalization of banks (Nippon Credit Bank, Long Term Credit Bank)

▶ Deregulation of the financial system – the “Big Bang”

- Complete capital account deregulation in 1998
- Complete domestic deregulation of financial system in 1999

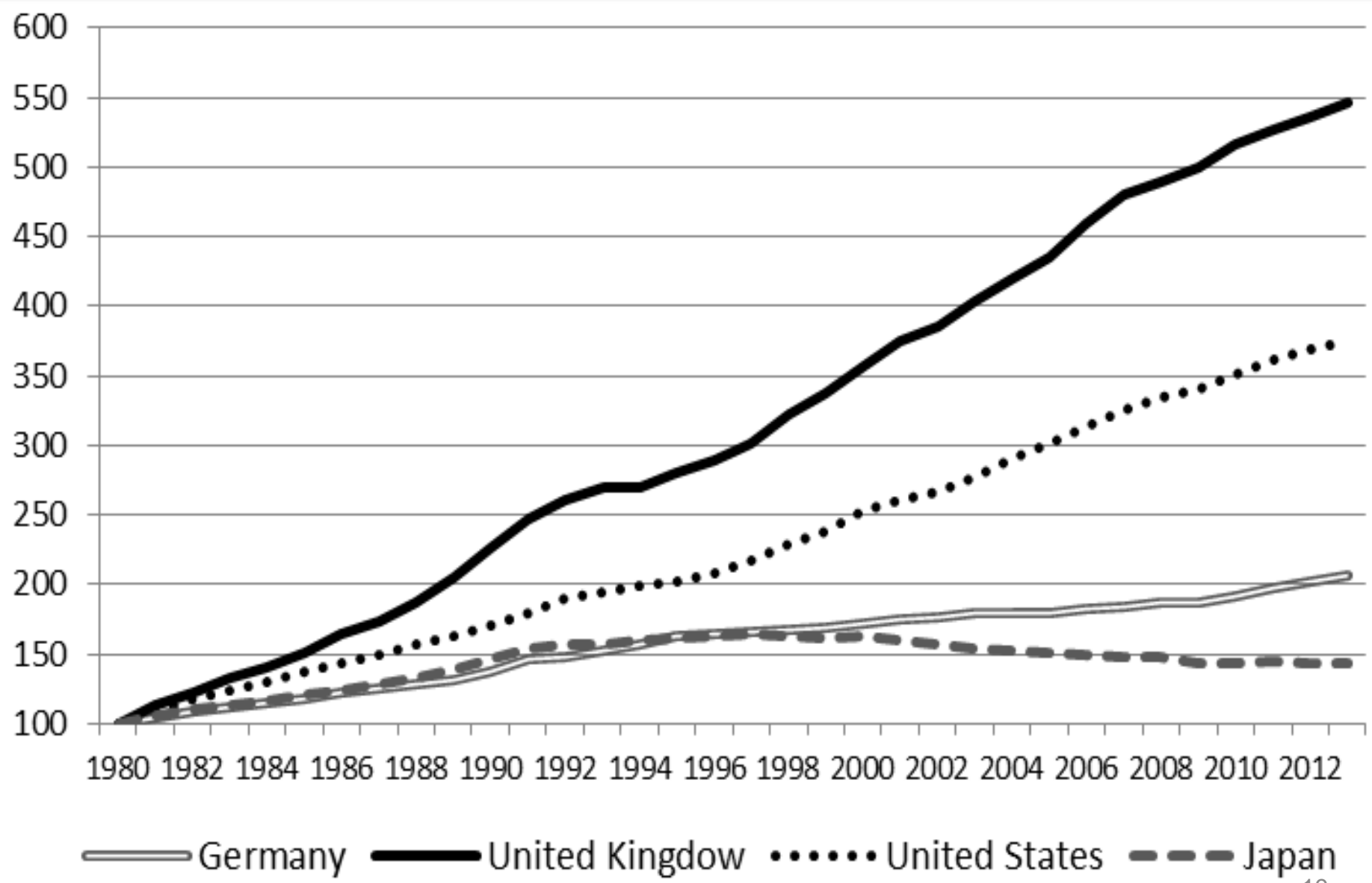
▶ A new credit-investment mechanism could not be triggered

- (balance sheet recession, Robert Koo)

The deflation in Japan

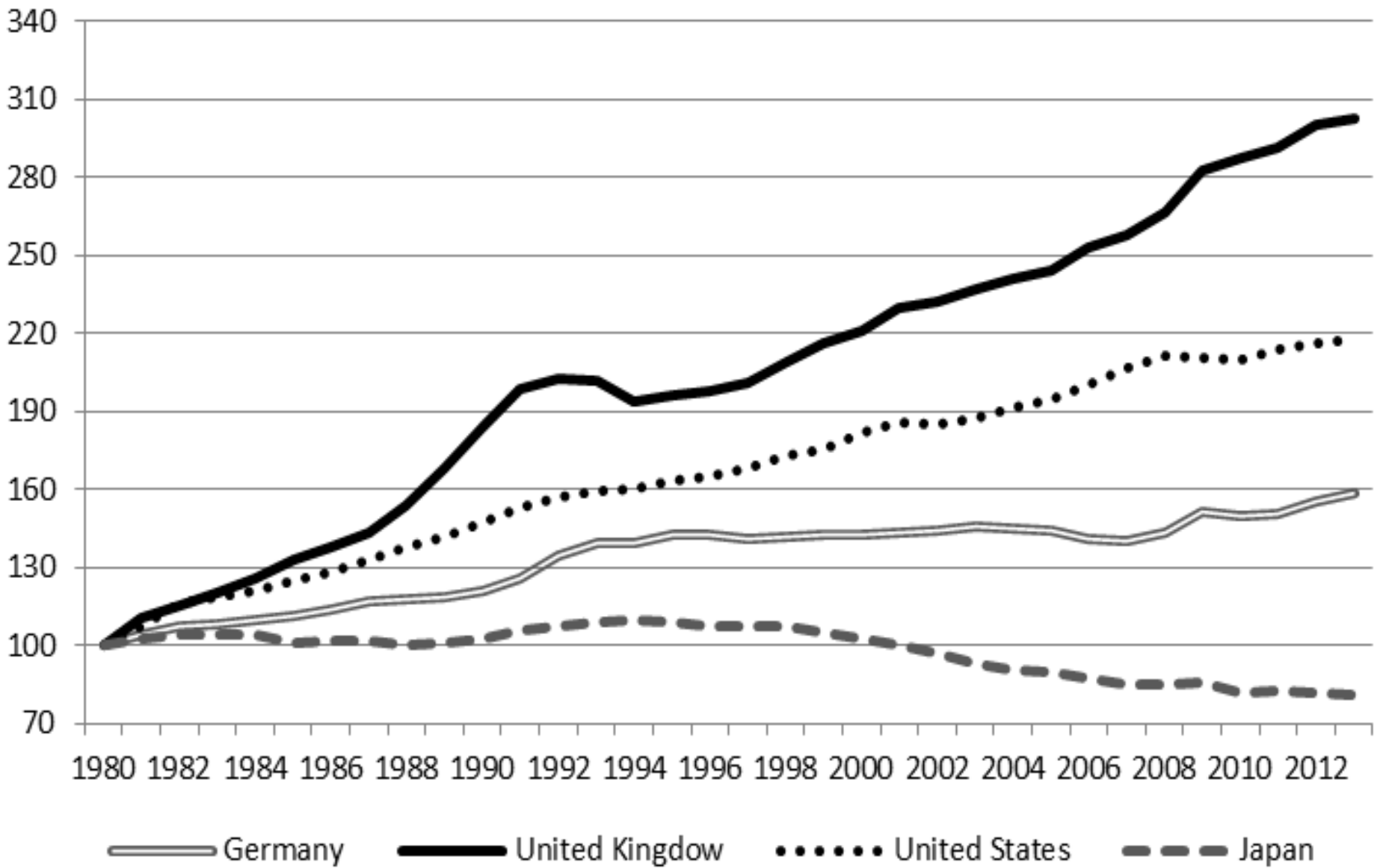
- ▶ **Nominal wage increases were low even before the bubble**
- ▶ **The Asian crisis in 1997 was a second shock which led to a long period of falling nominal unit labour costs**
- ▶ **Real wages continued to increase**
- ▶ **Labour market institutions in Japan are dysfunctional to prevent deflation**
- ▶ **Precarious working conditions in Japan increased**

Nominal compensation per employee in selected countries, 1980-2013 (total economy, 1980=100)



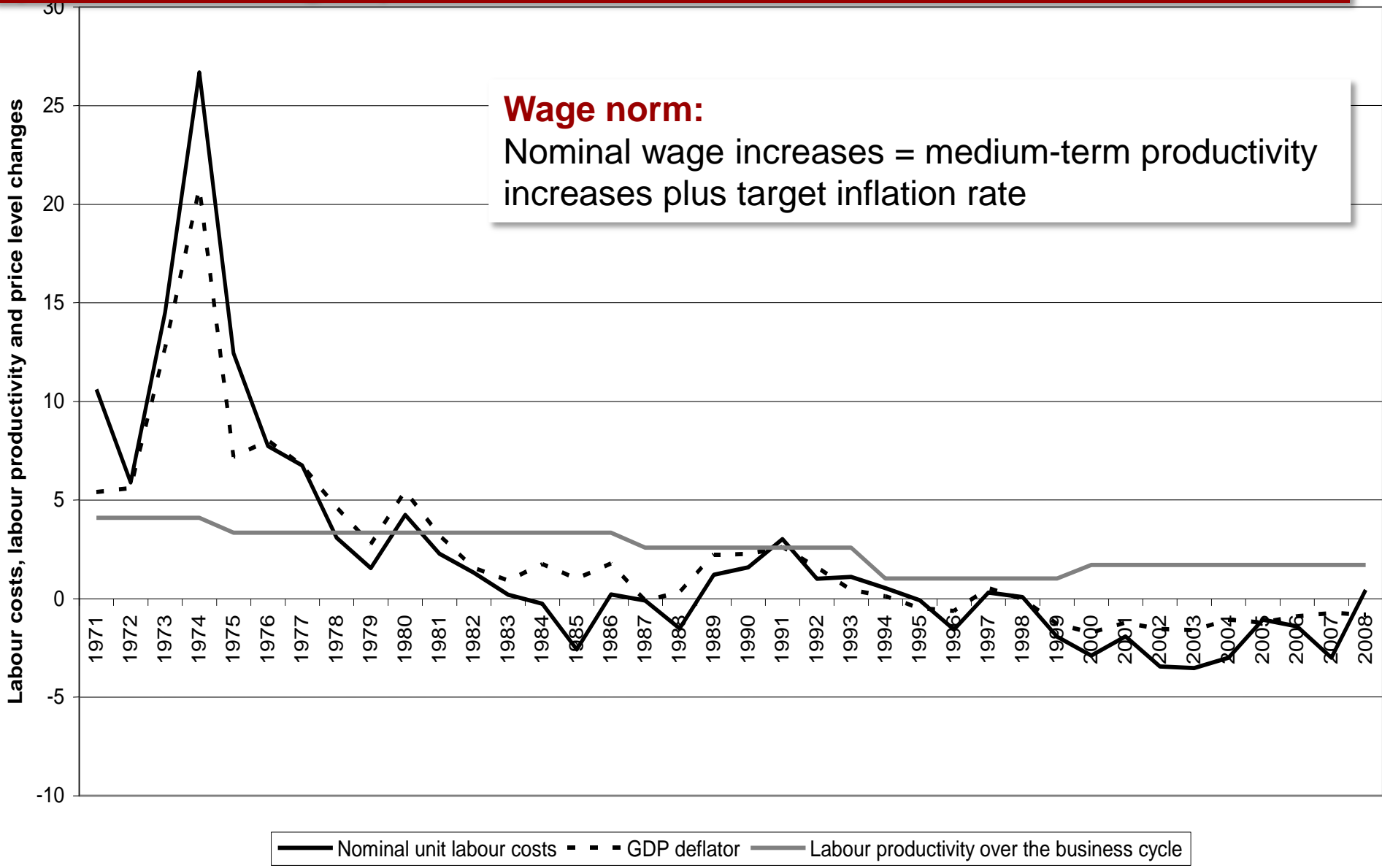
Source: Ameco 2014

Nominal unit labour costs in selected countries, total economy (1980=100)



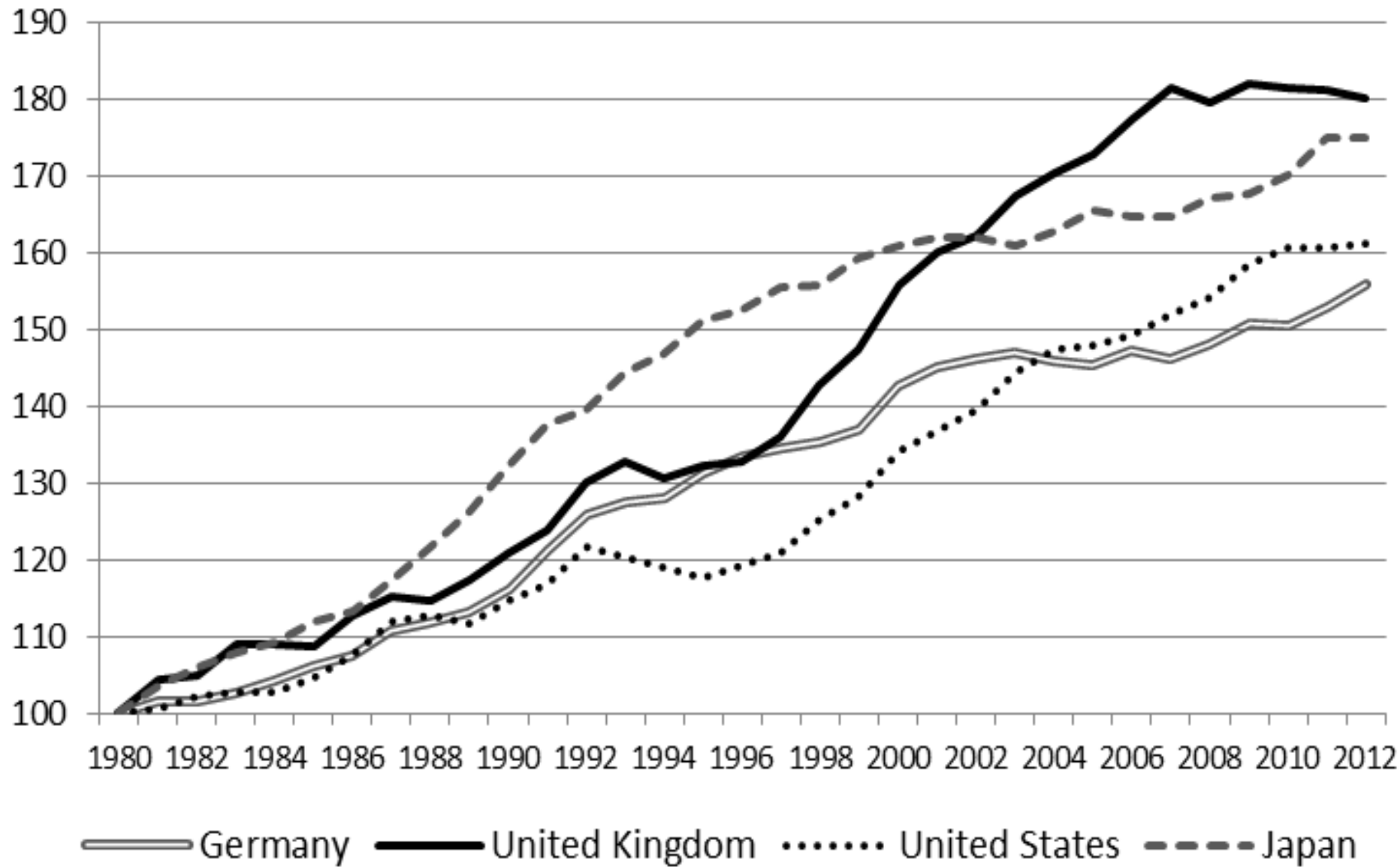
Source: Ameco 2014

Unit labour costs, productivity and price level in Japan (annual changes)



Source: Ameco (2011)

Real average hourly compensation of employees, selected countries, 1980-2012 (total economy, 1980=100)

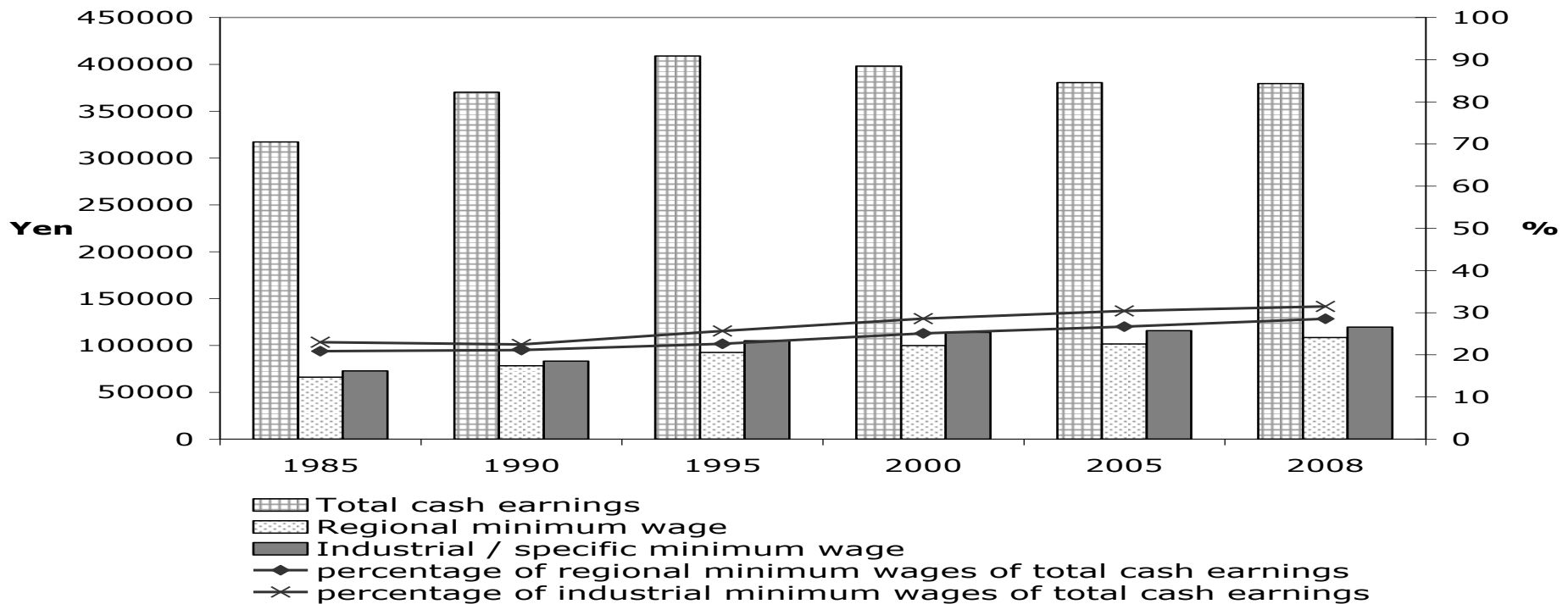


Source: Ameco 2014

Major Wage-setting institutions

- ▶ In 2008 57200 (mainly firm based) unions existed, there are three political divided union federations
- ▶ Traditionally only regular workers are organised
- ▶ Wage negotiations take place on firm and industry level
- ▶ Union density is 18% in 2006 (25% in the 1990s)
- ▶ Coverage of collective bargaining almost identical with union density – **almost no extension mechanism**
- ▶ Wage coordination, if at all, takes place via strong employer organisations

Minimum wages in Japan in per cent of average wages



There is no nationwide minimum wage

In 2008 there were 47 regional minimum wages and 250 industry and occupational minimum wages

Number of minimum wages affected persons in February 2008

	Council method	Collective-agreement extension method	Regional (prefectural) minimum wages	Industry- and occupation-specific minimum wages	Regional industry- and occupation-specific minimum wages	Central industry- and occupation-specific minimum wages
Number of minimum wages	297	2	47	250	259	1
Number of workers affected	-	500	50,240,000	3,730,000		

Percentages of employees by type of employment in Japan

Table 2 Types of employment, Japan, employees, 1985-2013 1)

		1985	1990	1995	2000	2005	2007	2011	2012	2013
Regular workers		83.6	79.8	79.1	74.0	67.4	64.4	64.3	64.4	62.6
Non regular staff		16.4	20.2	20.9	26.0	32.6	35.6	35.7	35.6	37.4
of which	Part-time workers	12.5	16.3	11.8	14.7	15.6	16.6	16.8	17.3	18.2
	Part-time workers with small no. hours*)	3.9	3.9	5.5	7.3	6.8	7.7	7.3	6.8	8.0
	Other**)	-	-	3.7	4.0	10.2	11.3	11.6	11.5	11.2
Total		100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Keizer 2008; JILPT 2014a, 2014b (based on Labour Force Surveys)

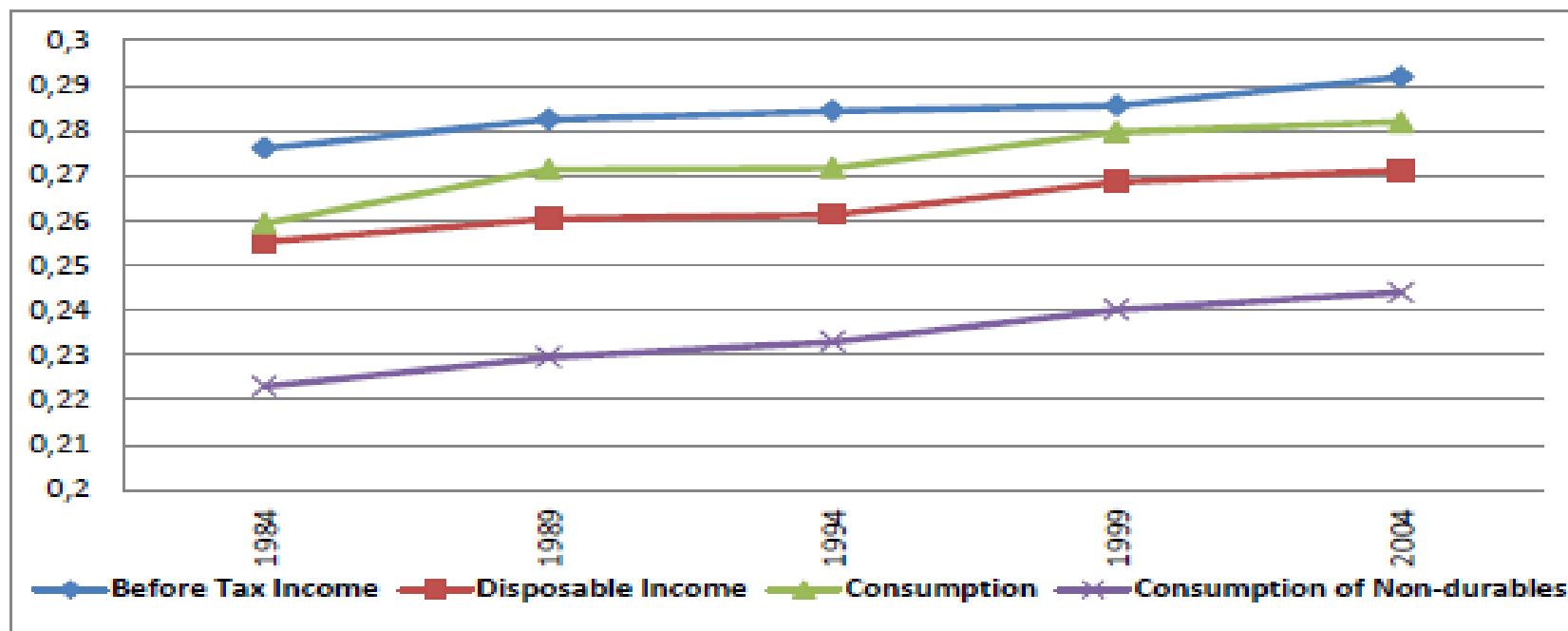
1) 2009 data are missing.

*) So-called Arubaito, temporary jobs taken up by someone still in school or with other reasons for working a small number of hours.

***) For example temporary agency workers or short-term contract employees.

Income distribution in Japan

Figure 3.3: Gini coefficient for income and consumption



Source: Authors' calculations using microdata of the NSFIE.

Note: We used an equivalence scale for the number of household members. That is, each household income and consumption expenditure is divided by the square root of the number of household members.

Source: F. Othake et al. Growing inequalities and their impact on Japan, 2013

Labour market in Japan

▶ **The wage bargaining system in Japan is dysfunctional**

- Wage negotiations on a firm level increase the danger of nominal wage cuts and deflation
- Wage coordination via employer organisations is not optimal
- Politically divided union federation weaken the union movement
- Only in recent years unions organise non-regular workers. Before unions even supported the increase in precarious work and a low-wage sector to protect own members

▶ **Minimum wages in Japan are dysfunctional**

- There is no nationwide statutory minimum wage / many regional and even professional minimum wages exist
- Minimum wages in per cent to average wages are too low
- Minimum wage policy was not actively used to fight deflation

Lessons form the Japanese bubble and stagnation

- ▶ **It was a mistake to allow the bubble at all**
- ▶ **Bubbles can lead to long-term stagnation even if deleveraging is over**
- ▶ **Policies to fight the asset price deflation and recession after the bubble were insufficient**
 - Interest rates cuts were too slow
 - The non-performing loan problem was not solved quickly
 - Fiscal policy was insufficient in the first phase after the bubble / a stop-go policy followed
- ▶ **There was no sufficient policy to stimulate demand**
 - Fiscal policy may be overburdened if other demand elements stagnate in the long-run
 - Consumption demand was weak (change in income distribution, asset price deflation)
 - Investment demand was weak
- ▶ **Dysfunctional labour market institutions led to the collapse of the wage anchor**
 - Firm unions and firm-level wage bargaining increases the danger of wage cuts
 - Minimum wage policy was not used

thanks.

Literature

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