“Epilogue: Retrospect and Prospects: the Significance of the Lost Decades in Japan”

This collection of essays present varied analytical perspectives that capture different economic realities during the past two decades and thus point to different prognoses for Japan’s economy. Implicit to each perspective is that the actors in question, whether the government, business elites, or company managers, to some degree are part of the reason for the onset of the economic downturn, and each can play a role in helping the economy recover its vigor. In this sense, then, the key to understanding the significance of the lost decade is the appreciation of not only the constituent parts of the whole but what these parts mean when considered together.

Government is responsible at the macro-level for helping Japan through its transition from a high growth economy to its next stage. Firms affect the policy making process through their representative organizations, such as Keidanren (now, Nippon Keidanren). Of course, firms, both large and small, make the economy work. If government can reconfigure the structure of incentives and provide crucial infrastructure, private companies must respond. Officials cannot alone create economic growth. Executives in the private sector must take advantage of new opportunities. Therefore, one must consider what the preceding essays convey about the significance of the lost decade for government, business elites, and company management.

The Extent of Change

On the surface, the experience of the lost decade has been traumatic for Japan. When the bursting of the speculative bubble in the late 1980s ushered in more than ten years of sluggish growth from 1990 to 2003, the heady confidence of the 1980s vanished. Observers no longer claimed that Japan was “number one.” Foreign “Japan bashers,” who used to lambast “Japan, Inc.” as an unfair trader, fell silent. Yet, a suspicion lurks that not much in Japanese business has changed at all. A recent commentary by Malcolm Warner (2011) notes that the effects of the
economic stagnation linger as the nation has not found a way out of its economic purgatory of slow growth over the past two decades.

The essays in this volume present a complicated landscape of change and continuity in Japan. Ulrike Schaede argues most forcefully for change by pointing out the many legal changes enacted by the government that could have a great impact on the managerial practices of companies. She contends that the government has, in effect, abandoned attempts at the “administrative guidance” that marked the glory days of the postwar economy. The liberalization of “cross-border financial transactions” in a new Foreign Exchange Law has removed the main levers that civil servants could use to control foreign participation in the economy. In 2003 a revision of the 1948 Labor Standards Act has made layoffs easier for companies to carry out. In response, many Japanese firms are following a strategy of “choose and focus” by shedding unprofitable units and emphasizing core businesses.

In many ways, these developments have fulfilled the deep wishes of big business, as represented, according to W. Miles Fletcher’s account, by Keidanren. If its proposals helped to inhibit a vigorous government fiscal response in the early 1990s, the group became a staunch advocate of broad long-term changes in terms of fiscal probity, smaller government, and the deregulation of the economy. Yet, one must remember that the leaders of Keidanren forged these goals in 1985, several years before the bursting of the bubble. They were reacting, instead, to the challenges at that time posed by the rapid rise in the value of the yen, pressure to limit Japanese exports from its largest market, the United States, the predicted aging of the society, and increased competition from rivals in a globalized economy. Moreover, the neo-liberal policies enacted by the administration of Ronald Reagan in the United States served as a model.
The economic crisis that unfolded after 1990 did not affect these goals; instead, they determined the response of Keidanren to that crisis.

Peter von Staden’s analysis of the fascinating debates in government sponsored councils (shingikai) in 1999 casts doubt on the degree to which the governing elites have wanted change. The politicians whom he quotes clearly express reservations about permitting the introduction of unfettered competition within Japan. If one tries to read between the lines of the leaders’ laments about the loss of ‘virtue’ within Japanese society, they seem to blame the nation’s economic downfall not on an overly protective or over-bearing government but on an outbreak of extreme capitalistic selfishness and greed. To them, a reassertion of traditional values of duty may be more important than revamping policies or institutions. As von Staden contends, changes in law may not mean much if Japanese firms do not use take advantage of them. Although Schaede argues that Japanese firms have made significant changes in strategy, she suggests that firms may well require another decade to fully implement those changes.

Research presented here and elsewhere argues that the managers of Japanese companies continue to struggle with the challenges of adapting to Japan’s post-high growth economy. While pointing out that most studies of the lost decade stress the impact of “macro-economic conditions” and look to governmental policies for solutions, Tsuyoshi Numagami, Masaru Karube and Toshihiko Kato (2010) emphasize problems in firms’ management. Numagami et al. argue that firms themselves have contributed to the prolongation of the economic downturn, because they have not adapted effectively to new conditions. They argue that the consensus-based managerial structure that worked so well through the 1980s is ill-suited to the current business environment. As Shige Makino and Tom Roehl explain, the efficient use of and improvement of existing technologies and the creation of economies of scale and scope propelled
firms’ growth. Within this context consensus management worked well to “move quickly to get to the easily visible targets…[and middle management fulfilled a] key role in finding ways to achieve these corporate goals” (Makino and Roehl, 2010, p. 390). The problem is that the high costs of middle management coordination are affordable during rapid growth periods but not so during lean times as experienced during the lost decade. Japanese firms have become burdened with “organizational deadweight” because of the over-emphasis on consensus decision-making and the resulting inability to make timely strategic decisions—what Numagami et al. call a dearth of “strategic connoisseurship.” They suggest the need for greater organizational discipline.

The four case studies in this special issue pertaining to specific practices of Japanese firms, suggest that some have been successful but that they have not changed their practices in major ways. Bruno Amman and Jacques Jassaud show convincingly that large family businesses have drawn on innate strengths to survive the economic downturn comparatively well. Their financial prudence in avoiding debt plus a willingness to invest during difficult times has proved effective, but they evidently have not changed their basic management practices. Similarly, according to Sophie Nivoix and Pascal Nguyen, large pharmaceutical companies have benefitted from similar policies, as they have been able to continue funding Research and Development without taking on large amounts of debt. As Mark Metzler observes, these companies may provide useful lessons in effectively handling an extended economic crisis. Further studies to examine whether or not such firms are inherently less prone toward problems of “organizational deadweight” would be helpful. Ishikawa Jun’s study of leadership styles in R&D teams indicates that changing the emphasis on consensus in Japanese management may be difficult. While charismatic “transformational” leadership by a single individual can work well in Western
companies, the ineffectiveness of this approach in Japanese pharmaceutical firms suggests that "collectivist" values in Japanese organizations remain strong. Naoki Ando’s analysis of decisions by Japanese companies regarding direct investment in overseas subsidiaries hints at managers’ inflexibility in arguing that their main concern is the degree of familiarity with the specific institutional circumstances of a subsidiary overseas.

To be sure, there are other areas of the Japanese economy that merit examination to determine the extent of change. For example, what might be specific examples of "organizational deadweight" hindering strategic decisions by companies? Has the modification of the Large Store Law led to a significant reduction in small retail shops and a more efficient retail sector? If the deregulation of foreign exchange has induced a large rise in foreign investment in Japan, what impact has it had on Japanese firms? Have the rate of investment by Japanese firms overseas or the pattern of that investment changed?

Prognosis

Of rising urgency is the question of what Japan should do next to break out of its economic slump. The standard levers of economic policy of maintaining low interest rates and injecting a fiscal stimulus have helped avoid a deep depression but evidently can do little more to boost the economy, no matter how persistently some economists argue for robust government spending (Krugman and Wells, 2010). The Bank of Japan has held the discount rate near zero since 1995; the national debt since then has soared to double the annual throughput of the national economy. The Economist (2010) has argued that Japan needs a variety of radical reforms, a "grand plan" to deal with the burdens of a rapidly ageing society with an economy replete with inefficiencies as detailed in a special 14-page report. The suggestions include infusing vitality into the economy to diversify companies’ work force by recruiting more women,
foreigners, and Japanese with international experience; to promote immigration; to provide more venture capital to encourage new businesses; to entice the elderly to invest their large savings more aggressively and/or to consume more. Warner (2011) agrees that Japan needs “economic, political, and social reform in spades.” In this issue, Schaede advocates a much more liberalized and competitive economy. In fact, she views the past two decades not as a “lost” era but as one that has presented exciting possibilities for economic renewal. Von Staden seems sympathetic toward the prospect of basic reforms in arguing that the Japanese have resisted changes in economic practices and that they need to decide what kind of “new political-economic system” they want. Metzler, however, doubts the utility of seeking a restoration of a unified vision of a high growth economy. He posits that just as Japan in the 1950s and 1960s was in the vanguard in pioneering high speed economic growth based on bank credit and then in experiencing a major deflation in the 1990s the nation is now entering a second industrial era in which quantitative growth may be unsustainable and the “grow-or-die” strategy may be obsolete. Indeed, the combination of a stubbornly persistent deflation and a projected shrinking of the nation’s population presents Japan with a unique circumstance in its modern history and powerful obstacles to robust economic growth in the conventional sense. Hence, trying to conceptualize a new vision of political economy to achieve these goals may be unrealistic.

Whether or not Japan is on the front lines of coping with a new historical epoch, the Japanese in the private and public sectors may have no choice but to grope incrementally toward a new type of solution to their current predicament. There is probably not a magic potion, a coherent strategic vision that will quickly restore the economy to strong and steady growth. If the injection of a massive public stimulus has not yielded great success, the effects of more neo-liberal policies are uncertain. Japan has at least been successful in keeping the official
unemployment rate comparatively low at a little over 5 percent, even if the price has been the survival of too many firms with low productivity and profits (The Economist, 2010, 9-11) or of what some call “zombie firms” (Warner, 2010). Adopting policies and strategies to promote more internal economic competition would undoubtedly raise that rate in return for possible gains in productivity that might or might not be large enough to help the overall economy.

Accepting a context of a relatively low demand as a “new normal” so to speak, firms and government agencies may have to experiment with various types of initiatives to find out what policies, strategies, and tactics work. Some of these may entail government support, while others may take advantage of deregulation. As Schaede notes, even if a number of firms have embarked on substantively new strategies, significant results may not appear for a decade. The Japanese political and corporate elites will have to decide what kind of political economy they want. They most probably will do so in stages. This new system may well take a shape that is difficult to envision now, and building it will require persistence and patience.

References


