Economics W4325

The Economic Development of Japan

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Today’s Objectives

• Provide Brief Introduction to the Japanese Economy
  – Why Study Japan?

• Go over Syllabus
  – Course Requirements
  – Overview of Course
Why Study Japan?

• It’s Interesting

• It Matters

• It helps us understand ourselves and our own economy

Why is Japan Interesting?

• Culture and history
  – Long and interesting tradition
  – First major non-western country to achieve high standards of living
  – Important case study in development

• We will use a historical approach in this class
Why Adopt a Historical Approach?

- Helps us to understand how the position of Japan has changed
  - 150 years ago Japan was hardly known
    • Remote island country
  
  - Now Japan is the second largest economy
    • Among most per capita income
  
  - Continues to be surrounded by controversy

Why Adopt a Historical Format?

- Necessary to study Japan in historical framework to understand present
  - Many characteristics of modern Japan are not traditional
    • Life-time employment
    • Low military spending
    • Large variations of government involvement
    • Position of women in economy
    • Financial Markets
    • Terrible macroeconomic performance
  
  - Why do these things change?

- Historical approach helps us understand workings of modern institutions
Basic Statistics: Geography

<table>
<thead>
<tr>
<th></th>
<th>Japan</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Area (1000km²)</td>
<td>378</td>
<td>9373</td>
</tr>
<tr>
<td>Forest and Woodland</td>
<td>67%</td>
<td>28%</td>
</tr>
<tr>
<td>Pop/Habitable Km</td>
<td>1523</td>
<td>54</td>
</tr>
</tbody>
</table>

Basic Statistics about Japan
Growth and Income

<table>
<thead>
<tr>
<th></th>
<th>Japan</th>
<th>US</th>
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</thead>
<tbody>
<tr>
<td>GDP/Capita (1955) US = 100</td>
<td>21</td>
<td>100</td>
</tr>
<tr>
<td>GDP/Capita in US dollars (2000)</td>
<td>36,300</td>
<td>36,000</td>
</tr>
<tr>
<td>PPP Adjusted GDP/Capita (2000)</td>
<td>25,600</td>
<td>36,000</td>
</tr>
<tr>
<td>Real GDP Per Capita Growth Rate (81-91)</td>
<td>3.6</td>
<td>1.9</td>
</tr>
<tr>
<td>Real GDP Per Capita Growth Rate (91-02)</td>
<td>0.7</td>
<td>2.0</td>
</tr>
<tr>
<td>Real GDP Per Capita Growth Rate (1981-02)</td>
<td>2.0</td>
<td>2.0</td>
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</table>
Labor Markets

<table>
<thead>
<tr>
<th></th>
<th>Japan</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hrs/Yr worked (1999)</td>
<td>1942</td>
<td>1999</td>
</tr>
<tr>
<td>Unemp. Rate (2003)</td>
<td>5.3%</td>
<td>6.2%</td>
</tr>
<tr>
<td>Fem Labor Force (1999)</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Total (15+)</td>
<td>49.6</td>
<td>60.0</td>
</tr>
<tr>
<td>20-24</td>
<td>72.4</td>
<td>73.2</td>
</tr>
<tr>
<td>30-34</td>
<td>56.7</td>
<td>73.2</td>
</tr>
<tr>
<td>45-49</td>
<td>71.8</td>
<td>77.2</td>
</tr>
</tbody>
</table>

Does Japan Matter Anymore?

- Japan matters because it’s big and size matters!
  - Size matters economically and politically

- Let’s look at Japan’s
  - Population
  - GDP
### Populations of OECD Countries

- U.S.A.
- Japan
- Mexico
- Germany
- United Kingdom
- France
- Italy
- Korea, Rep. Of
- Spain
- Canada
- Switzerland
- Denmark
- Finland
- Norway
- Ireland

### Division of World GDP in 2002

- United States: 32%
- Japan: 12%
- Germany: 6%
- United Kingdom: 5%
- Italy: 4%
- France: 4%
- China: 4%
- Rest of World: 13%
- Sweden: 1%
- Korea, Rep.: 1%
- Brazil: 1%
- Austria: 1%
- Belgium: 1%
- Israel: 1%
- Russia: 1%
- Poland: 1%
- Turkey: 1%
- Denmark: 1%
- India: 2%
- Mexico: 2%
- Spain: 2%
- Canada: 2%
How Does Studying Japan Help Us Understand Economics?

- What are the implications of Japan’s employment practices?
  - Are they better or worse?
  - Will they survive?

- What lessons can we draw from Japan’s government policies?
  - Macroeconomic performance has been exceptional
    - Both good and bad!
  - What are the implications of Japan’s financial system and system of corporate governance for other countries?
Real Per Capita GDP Growth 1961-2002

Macroeconomic Performance
5-Year Moving Average of Real Per Capita GNP Growth

Capital Markets
Stock Price Movements

Movements of the Nikkei 225

Land Price Movements

Commercial Real Estate

Residential Real Estate
Evolution of Short-Term Japanese Interest Rates

Year
Average Monthly Call Rate
0 1 2 3 4 5 6 7 8

Capital Markets
Ownership of Japanese Securities

Year
Percent Ownership
0 10 20 30 40 50 60 70 80

Ownership:
- Financial Institutions (excluding Ins. Trusts and Inv. Co.'s)
- Nonfinancial Enterprises
- All Corporations
- Individuals
- Foreigners
Foreign Direct Investment in Japan
(100 million yen)