



I have a confession to make. When I was a first year undergraduate, like most of you are now, I studied economics. But, I disliked it so much that I changed my major to history in my second year. This lecture about the Japanese economy, therefore, is given by someone deeply skeptical about economics as an academic discipline. And looking at the severe social and environmental problems caused by our capitalist system in the past 40 years in particular, I am also deeply skeptical about our economic system.

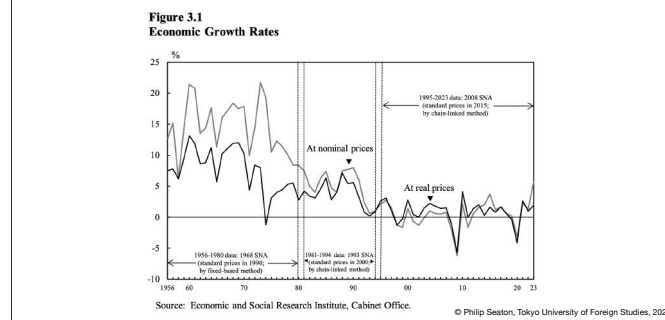
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But we cannot understand Japanese society without discussing the Japanese economy. I am not going to make this a long lecture because a high proportion of the Statistical Handbook of Japan is about the economy. Please read these sections in the Handbook, especially Chapter 3. The main thing I want to do is give you an understanding of why you must read carefully and with a critical mind all that is written in the Handbook. It is a government publication, and they tend to portray the government and its policies in positive ways. I will also focus on some examples of what economic trends tell us about the nature of Japanese society.

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Economic Growth Rates



Let's start with economic growth. Japanese Gross Domestic Product grew rapidly during the years of the so-called economic miracle. But, it is easy to grow from a low base, when the country has been destroyed by war, and when the population is growing. Japan reached its economic peak in the early 1990s. Now, with a mature advanced industrialized economy and shrinking population, Japan will struggle to have any growth in the coming years. Notice the two big shocks when the economy actually shrinks significantly: the 2008 financial crisis and the Covid-19 pandemic. Remember all that we heard about growth in Kate Raworth's lecture. I think this graph tells you why Japan is going to struggle if it always focuses on economic growth.

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Abenomics



But in the last decade, the government has still wanted us to believe in growth. During the pandemic from 2020 to early 2023, the economy was in crisis management mode. And from 2022, the Ukraine War has been a massive energy shock for Japan, leading to sharp price increases and a weak yen. But going back to pre-Covid days, the key policy was Abenomics. Look at the slide. It's from a government pamphlet linked from our class homepage. It says "Abenomics, for future growth" ... yes, another politician talking about growth. The Statistical Handbook talks quite a lot about the core elements of the Abenomics policy (see Chapter 3). I am just going to read out the section on pages 27 and 28. [... Click to website]

OK, have a quick break from my voice. With the people nearest to you, discuss for a few moments whether this is a positive, neutral, or negative interpretation of recent economic policy.

[Class discussion ... back to Slide]

Unsurprisingly, the government pamphlet, whose picture of Abe I borrowed, also praises the achievements of Abenomics. I

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will let you read it and judge for yourself. It can also be read for the Active Learning Hours Project.

4

Abenomics

- **Inoue Shin**, "Inequality and Precarity in Japan: The Sorry Achievements of Abenomics"

"In short, Abenomics' signature achievements consist of the success of an income-doubling plan for the wealthiest individuals, executives of large corporations, and the LDP. It is easy to understand how LDP favors to the wealthy makes it possible for those who are well-off and executives to double their payoffs to the LDP.

In contrast, there has been a significant increase in the number of low-end households without savings, experiencing death from overwork (karoshi), mental health problems and injuries in the workplace, non-regular employment, and entering the ranks of the working poor. Concurrently, the education budget, real wages, household consumption, and wages have all decreased."⁹

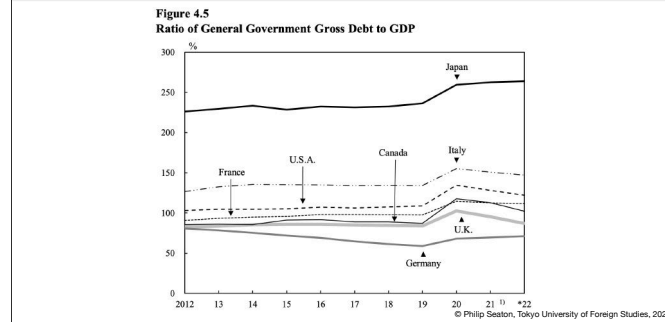
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But, the statistics mask a harsher reality. Probably the biggest criticism of Abenomics is that it greatly widened inequality in Japan. Here are the conclusions of Inoue Shin. This article is also available from the class homepage. Inoue writes as follows: [quote from the slide].

In short, the apparent economic benefits of Abenomics masked some serious social problems. In fact, Abenomics is part of a broader global trend in the last 2-3 decades of massive wealth concentration in the richest 1% of individuals. This problem is already causing major unrest in the United States, Europe and elsewhere. The coronavirus pandemic made these divisions even worse. Japanese society has not yet exploded in rebellion. But it could do at some stage in the future if inequality keeps widening ...

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The National Debt



But, one area in which Abenomics has not caused any particular problems is in the size of the national debt. Quantitative easing, or putting more money into the economy via buying bonds, was part of Abenomics. Japan has a very high ratio of General Government Gross Debt to GDP. This increased during the period of Abenomics and jumped to an even higher level during the pandemic as the government spent massive amounts on vaccines, pandemic countermeasures, and economic assistance to people who lost their livelihoods. People have often considered Japan's national debt to be a problem. It's now over 260% of GDP, which as you can see on the graph is way above other advanced industrialized nations.

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The National Debt & MMT

Stephanie Kelton

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Modern Monetary Theory explained by Stephanie Kelton

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But, a new school of thought in economics called Modern Monetary Theory tells us that this isn't a problem. I have linked a lecture by Stephanie Kelton from the class homepage, which explains why the national debt in Japan is not a problem. This is because, first, the Japanese government is a currency issuer and can issue more yen any time it likes, and second, Japan does not have an inflation problem. Government spending is not limited to the money the government raises by taxes. The Japanese government can create more yen any time it likes. However, if the government creates too much money, it can cause an inflation problem. This is because too much money is chasing too few goods and services, and so prices go up. But, Japan has not had an inflation problem. If anything the problem has been deflation: falling prices.

This might seem to have changed since 2022 amidst the Ukraine crisis and now the Middle East crisis. We have soaring energy prices and a weak yen, which has created strong inflationary pressure. In the couple of years, most basic household items, especially things like food, have risen in price sharply.

However, this is supply side inflation caused by higher energy prices, rather than demand side inflation caused by too much demand for a limited number of goods. There is a crucial difference. Supply side inflation means that

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goods are plentiful but people can buy less for their money. People feel poorer, and they are poorer in real terms adjusted for inflation. Overall, the economy is most at risk of cooling down. Demand side inflation, by contrast, means that goods are lacking, and competition for scarce goods means the economy risks overheating. Demand side inflation is what Abenomics aimed for, so we should not see the supply side inflation of the past two years as somehow a success story for the government's economic strategy. Quite the opposite: now there is significant pressure for wages to rise so that people don't get any poorer in real terms.

Returning to the discussion of the so-called national debt, for now Japan does not have to worry. However, if inflationary pressures mean that interest rates must rise, then Japan could quickly get into real trouble. The theory is a little complicated, but if you are interested, please try reading more about Modern Monetary Theory. Kelton's book is available in both Japanese or English.

Industry

Table 3.2
Changes in Industrial Structure

Year	Employed persons ⁽²⁾			Gross domestic product (GDP) ⁽¹⁾		
	Primary	Secondary	Tertiary	Primary	Secondary	Tertiary
	industry	industry	industry	industry	industry	industry
1950	48.6	21.8	29.7	---	---	---
1955	41.2	23.4	35.5	19.2	33.7	47.0
1960	32.7	29.1	38.2	12.8	40.8	46.4
1965	24.7	31.5	43.7	9.5	40.1	50.3
1970	19.3	34.1	46.6	5.9	43.1	50.9
1975	13.9	34.2	52.0	5.3	38.8	55.9
1980	10.9	33.6	55.4	# 3.5	# 36.2	# 60.3
1985	9.3	33.2	57.5	3.0	34.9	62.0
1990	7.2	33.5	59.4	2.4	35.4	62.2
1995	# 6.0	# 31.3	# 62.7	# 1.7	# 31.5	# 66.9
2000	5.2	29.5	65.3	1.5	29.2	69.3
2005	4.9	26.4	68.6	1.1	26.8	72.1
2010	4.2	25.2	70.6	1.1	25.5	73.4
2015	3.7	24.6	71.7	1.0	25.9	73.1
2020	3.2	23.4	73.4	1.0	25.9	73.1

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Let's move on now to the structure of the Japanese economy and its links to Japanese society. I will introduce a few of the tables from the Statistical Handbook. This table looks complicated, but it tells an important story. Primary industries are things like agriculture, fishing and forestry. Secondary industry means manufacturing and mining. Tertiary industry is the service industries, such as retail and hospitality.

If you follow the arrows from the 1950s to the present you can see that many people are moving out of primary industries such as agriculture and fishing, and they are moving into tertiary industries such as the retail and service sectors. In other words, Japan is becoming much more white collar. This is the trend that has underpinned Japan's transition from developing nation to advanced industrialized nation in the postwar years.

Industry

Table 3.3
Gross Domestic Product by Type of Economic Activity (%)

	1995	2000	2005	2010	2015	2020
Primary industry						
Agriculture, forestry and fishing	1.6	1.5	1.1	1.1	1.0	1.0
Secondary industry						
Mining	0.2	0.1	0.1	0.1	0.1	0.1
Manufacturing	23.5	22.5	21.4	20.8	20.5	19.7
Construction	7.6	6.7	5.4	4.6	5.2	5.9
Tertiary industry						
Electricity, gas and water supply and waste management service	3.1	3.3	3.0	2.9	2.9	3.3
Wholesale and retail trade	13.8	13.0	14.1	13.4	13.0	12.6
Transport and postal services	5.5	4.9	5.1	5.1	5.3	4.3
Accommodation and food service activities	3.0	3.1	2.7	2.6	2.4	1.8
Information and communications	3.3	4.7	5.0	5.0	4.9	5.1
Finance and insurance	5.1	5.0	6.1	4.8	4.3	4.3
Real estate	10.3	10.8	11.0	12.3	12.0	12.2
Professional, scientific and technical activities	4.5	5.5	6.2	7.2	7.8	8.4
Public administration	4.7	5.0	5.0	5.1	4.9	5.2
Education	3.6	3.6	3.6	3.7	3.5	3.6
Human health and social work activities	4.2	5.1	5.7	6.7	7.4	8.2
Other service activities	5.2	5.2	4.9	4.6	4.2	3.7

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This set of data gives an even more exact picture of what is happening.

Agriculture, forestry, fishing, manufacturing and construction are all declining in significance as a proportion of GDP.

Meanwhile, information and communications, real estate, technical activities and health and social work are all on the increase. But, remember that an increase in GDP does not always equate to improvement in one's situation. Reconstruction after a devastating earthquake contributes to GDP. And social work, for example, refers to things such as care for the elderly. Its share of GDP is rising because the number of elderly people needing care is rising.

So, when you read such tables of figures, you always need to understand the social implications, and not just see them as economic statistics with more money and more GDP growth being better. I think we can all agree that a really effective cancer prevention programme that costs less than an expensive cancer treatment programme would be far better for society. However, thinking only in terms of GDP, the expensive treatment would be better. As you can see, economic thinking can sometimes really twist our social values and ideals.

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Agriculture

Table 5.3 (2020 Statistical Handbook)
Commercial Farm Households and Commercial Farmers

Year	Commercial farm households (1,000)				Commercial farmers	
	Total	Full-time	Part-time		(1,000)	Aged 65 years and over (%)
			Mainly farming	Mainly other job		
1995	2,651	428	498	1,725	4,140	43.5
2000	2,337	426	350	1,561	3,891	52.9
2005	1,963	443	308	1,212	3,353	58.2
2010	1,631	451	225	955	2,606	61.6
2015	1,330	443	165	722	2,097	63.5

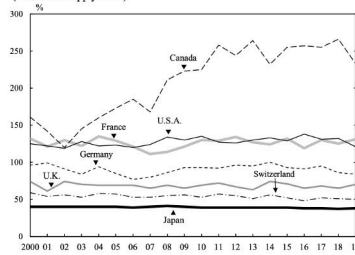
Source: Ministry of Agriculture, Forestry and Fisheries.

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This table from the 2020 Statistical Handbook (it is not in the current version) gives us a clearer picture of what is happening in the agricultural sector. As you can see, while the number of commercial farming households is decreasing rapidly, the percentage of elderly farmers is increasing rapidly. There is a similar downward trend in fisheries, too. It is very difficult to get young people to consider a career in the primary industries in Japan. This is one of the reasons why many primary industries are looking to hire "technical interns", in other words foreigners, to work in these industries. As we will hear in a later lecture, the "technical intern" system is basically a way to import cheap foreign labour without calling it immigration ... although the government would prefer to portray the scheme as Japan sharing know-how, skills, and economic opportunities with other Asians.

Food Self Sufficiency

Figure 5.4
Trends in Food Self-Sufficiency Ratio of Major Countries ¹⁾
(On calorie supply basis)



¹⁾ Estimates except for Japan.
Source: Ministry of Agriculture, Forestry and Fisheries. © Philip Seaton, Tokyo University of Foreign Studies, 2024.

One result of this situation in the primary industries is that Japan has a very low level of food self sufficiency. In other words, in terms of calories, the amount of food produced in Japan is only about 40% of its total food needs. Put simply, Japan must import food, or its people will starve. This is the single greatest reason why Japan needs to develop its role as a peaceful, friendly, international trading nation. It cannot afford to be cut off from the world.

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Business (Retail)

Table 10.1
Establishments and Persons Engaged in the Wholesale and Retail Sector (2021)

Item	Total	Wholesale	Retail
Number of Establishments	1,228,920	348,889	880,031
Size of operation (persons engaged)			
1-4 persons	662,206	171,120	491,086
5-9	265,776	85,100	180,676
10-19	173,105	50,733	122,372
20-29	56,551	16,437	40,114
30-49	33,078	12,023	21,055
50-99	19,287	6,651	12,636
100 and over	10,167	3,765	6,402
Loaned or dispatched employees only	8,750	3,060	5,690
Persons engaged	11,611,924	3,900,979	7,710,945
Regular employees	10,174,880	3,453,375	6,721,505
Indefinite duration employees	6,790,299	2,951,492	3,838,807
Limited duration employees	3,384,581	501,883	2,882,698
Temporary employees	214,794	44,194	170,600
Loaned or dispatched employees from the separately operated establishments	279,040	146,446	132,594
Loaned or dispatched employees to the separately operated establishments	97,377	75,678	21,699

Source: Statistics Bureau, MIC, Ministry of Economy, Trade and Industry. © Philip Seaton, Tokyo University of Foreign Studies, 2024.

Finally, let's take a quick look at the retail sector. This data gives us some more very important insights.

When a lot of people think of Japanese businesses they think of the lifetime employment system. But, look at the large number of businesses that employ very small numbers of people. These small businesses are not offering lifetime employment. By contrast, they offer few benefits and little job security to their employees. And when the economy is bad, these small businesses quickly get in trouble.

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And look at all the people who are part-time or non-regular employees rather than full-time regular employees. These part-timers are earning maybe 1000-1500 yen per hour. That might be enough for a student part-time job to save money for study and club activities. But, if you have to pay rent and living expenses on top of that then such jobs keep people below the poverty line. In this category of worker there are many people classified as working poor. The government might not count them as “unemployed”, and the government might make grand claims that they are creating employment. However, having an economy in which there is so much insecure and badly paid work is not really something to cheer about.

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Japan's Four Big Challenges

- The Japanese economy faces one immediate challenge, and three long-term challenges:
 - Supply side inflation cause by the coronavirus pandemic, the Ukraine War, and Middle East crisis.
 - An aging and shrinking population.
 - The climate crisis.
 - The next “big one” (earthquake).

Is the Japanese economy in a suitable shape for tackling the challenges Japanese society faces in the 21st century?
And if not, what can be done to fix the situation?

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So, the Japanese economy is facing many severe problems, despite what the government likes to say about neoliberal economics, in other words Abenomics, being a success. Actually, we can think of these problems as two immediate challenges, two long-term challenges, and one permanent challenge.

The first immediate challenge is overcoming the supply side inflation caused by the coronavirus pandemic, the Ukraine War, and Middle East crisis.

The failings of our capitalist system were cruelly exposed by the pandemic. In Japan and other countries, the most vulnerable people in society were hit hardest. This included the elderly, who continue to face most risks from the disease. But, in an economic sense it also included people in low paid, insecure employment. These people were the first to suffer loss of income and loss of their job. Some sectors, particularly tourism, were also badly affected. By contrast, some very wealthy people took advantage of the pandemic to greatly increase their wealth. There were new business opportunities in the Covid-19 era, but only for those people with the health, wealth and security to invest and take advantage.

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Then before the pandemic was over, on 24 February 2022 Russia launched its brutal war of invasion against Ukraine. Japan has stood resolutely with Ukraine and opposed Russian aggression. But this has severe implications for Japan's economy and society. Russia is Japan's closest neighbour, in terms of the distance from Japanese territory to Russian territory. Japan has been ever more reliant on Russian energy since the earthquake in 2011. Now Japan is undergoing a painful realignment. Plus, the price rises stemming from the food and energy crises caused by the war are visible in every shop. One can only hope that Russia ends its aggression as soon as possible, but this looks like being a long conflict that could have disastrous long-term effects on the planet as a whole if it escalates further or goes nuclear. And in the past year, the escalation of conflict in the Middle East and the real danger of full-scale war between Israel and Iran has put further uncertainty into the global economic system.

The first of the long-term challenges is coping with Japan's aging and shrinking population. From here on, the only way for the Japanese economy to grow is for Japanese people to work even longer and harder than they already do, or for Japan to massively increase immigration. In week 2 we watched the video by Kate Raworth about growth and its unsustainability. Today, we have seen that in an economic sense and via economic data.

The next long-term challenge, of course, is the climate crisis. Pretending that economic growth can continue for ever without causing further environmental destruction is just nonsense. As Raworth says, it is more important to thrive than to grow. It is more important to be healthy and happy than to accumulate endless wealth.

And finally, there is an issue I have not touched upon yet in this course, but one that Japan must always be ready for. At some stage, another earthquake will hit Tokyo with devastating economic consequences. The next big one is long overdue and will cause major economic and social dislocation when it happens.

So, I do not want to be a pessimist and I know that Japanese society has overcome many challenges in the past. But, these are fragile times and the most important questions we must ask are these: "Is the Japanese economy in a suitable shape for tackling the challenges Japanese society faces in the 21st century? And if not, what can be done to fix the situation?"