



STICERD

Suntory and Toyota International Centres
for Economics and Related Disciplines

STICERD public lecture

The Realities and Relevance of Japan's Great Recession

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Professor Tim Besley

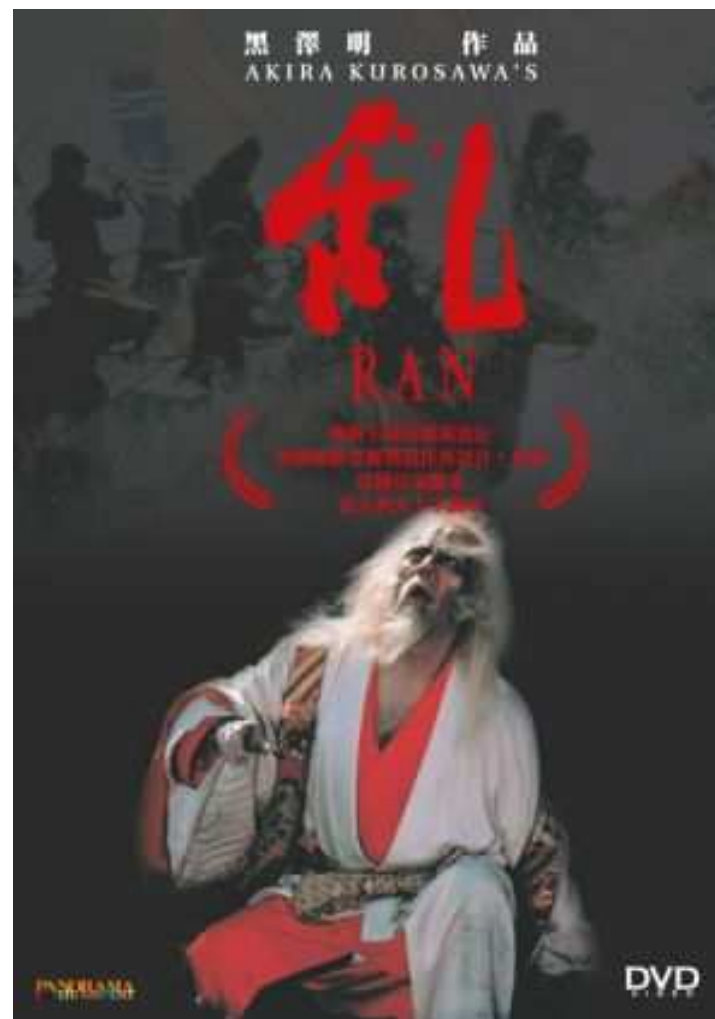
Chair, LSE



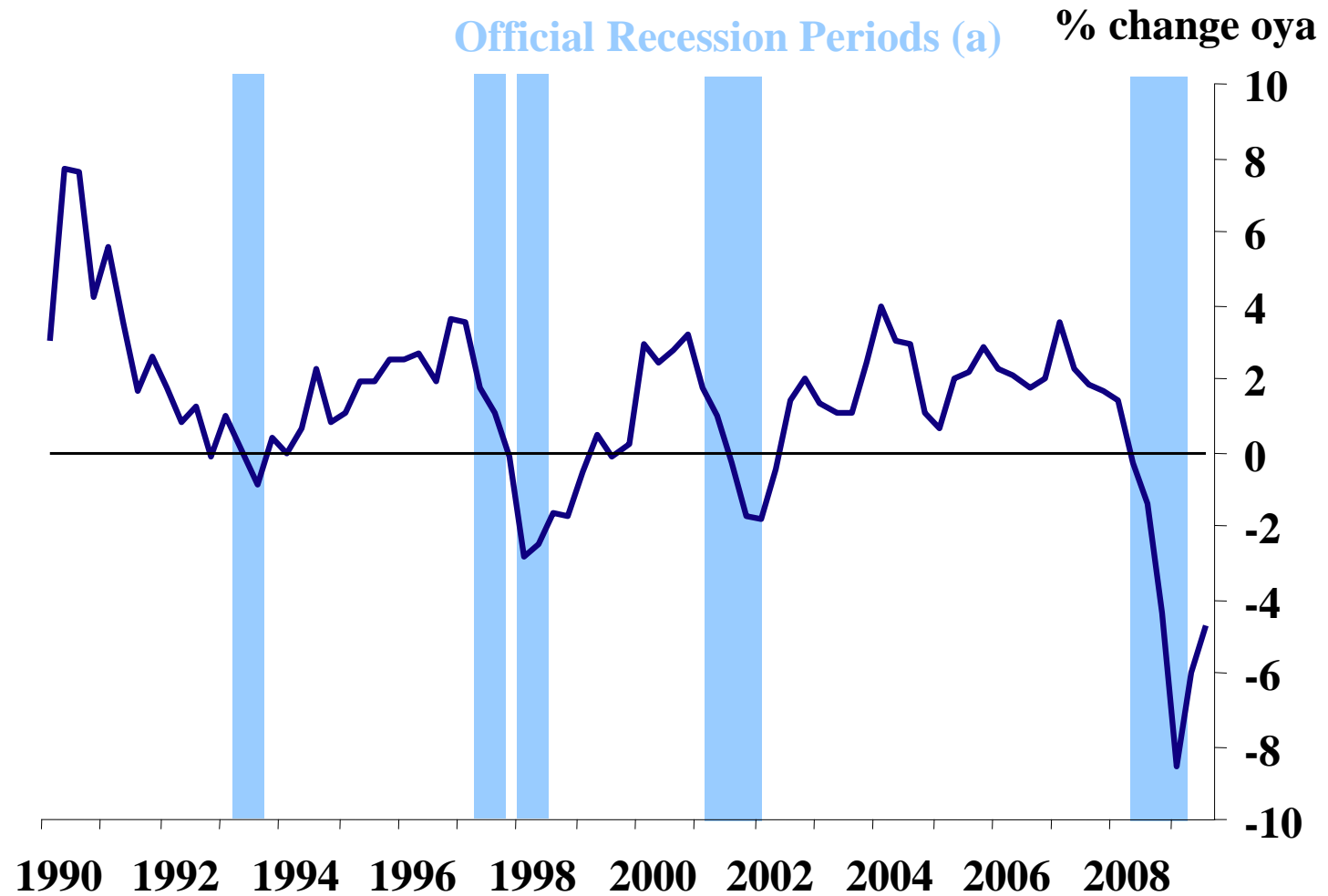
The Realities and Relevance of Japan's Great Recession Neither *Ran* nor *Rashomon*

Adam S. Posen
LSE STICERD Lecture
May 24, 2010

...



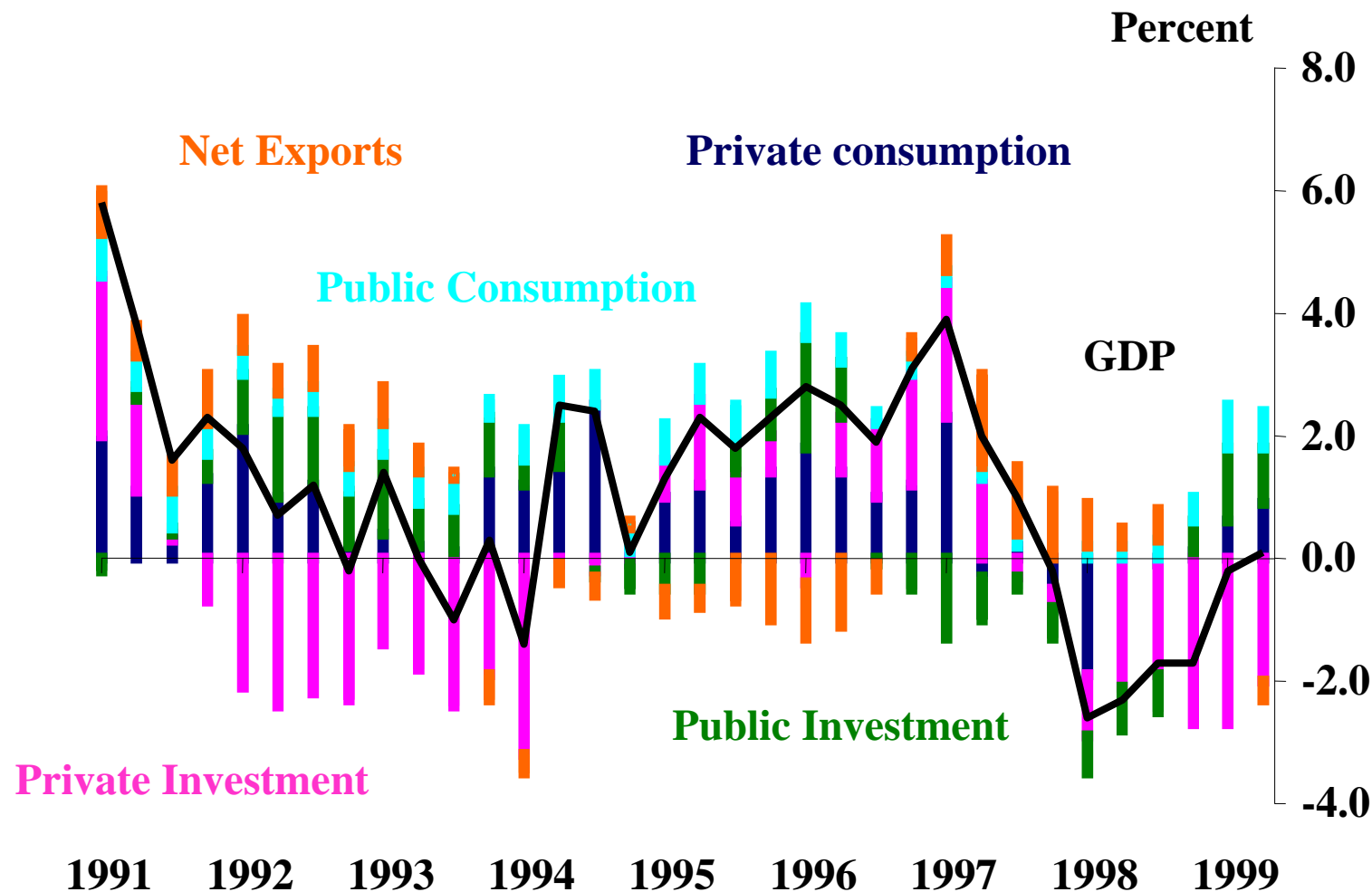
Japanese growth- far from flat



(a) Defined as two consecutive quarters of declining output

Source: Thompson DataStream

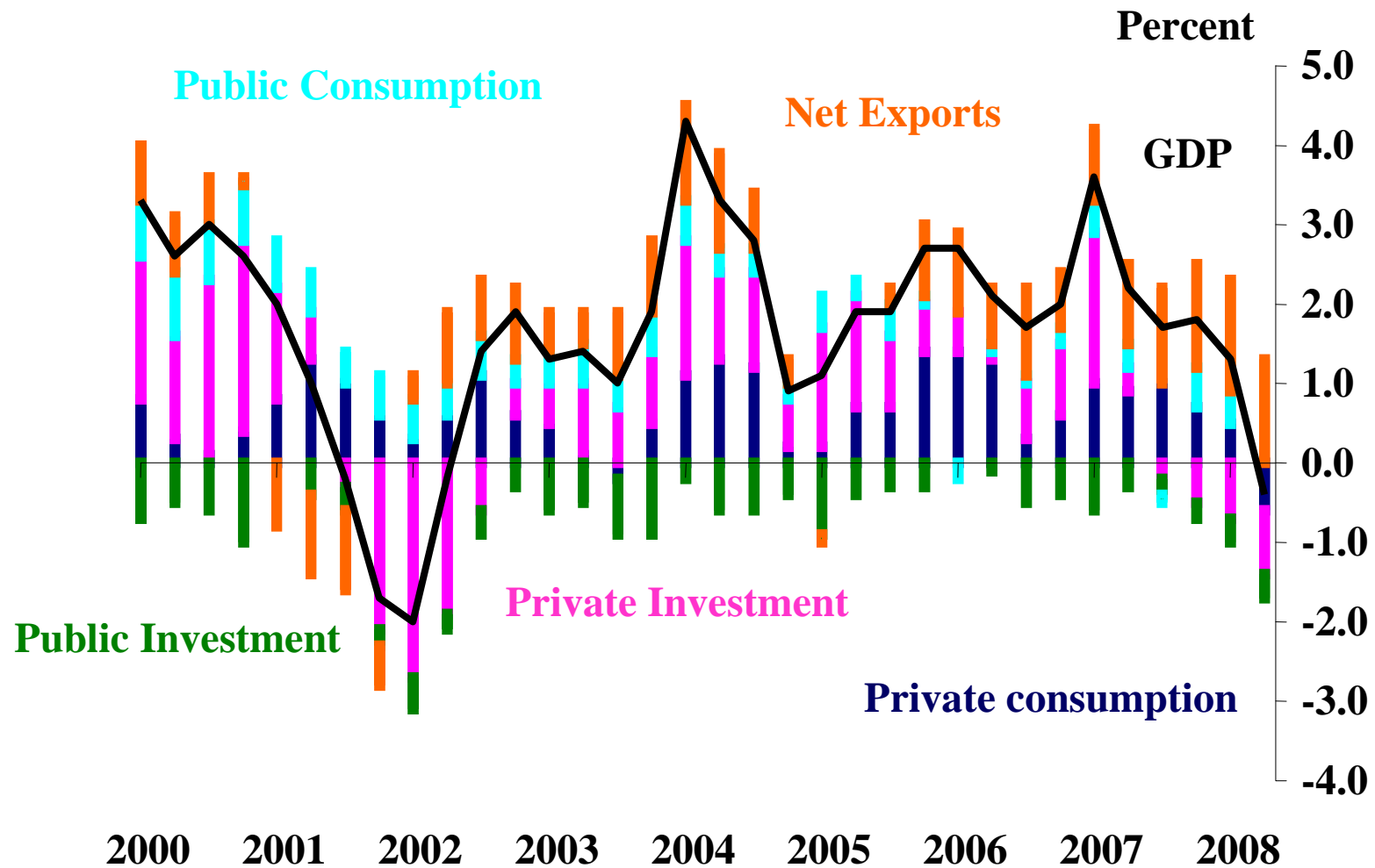
Japanese Real GDP Growth 1991 Q1:1999 Q2



Source: Cabinet Office Japan

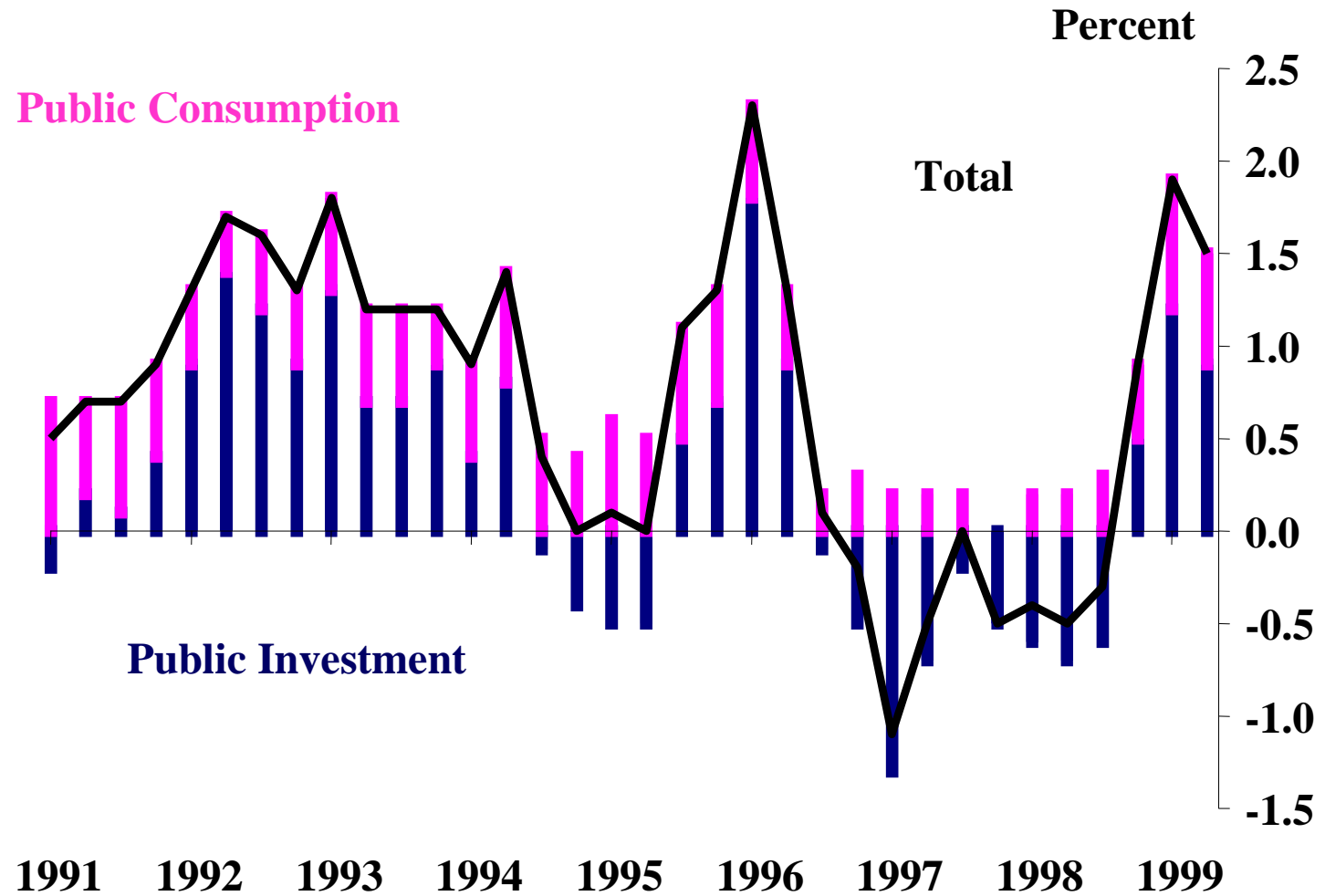
Japanese Real GDP Growth 2000 Q1:2008 Q2

Sustained and sustainable growth



Source: Cabinet Office Japan

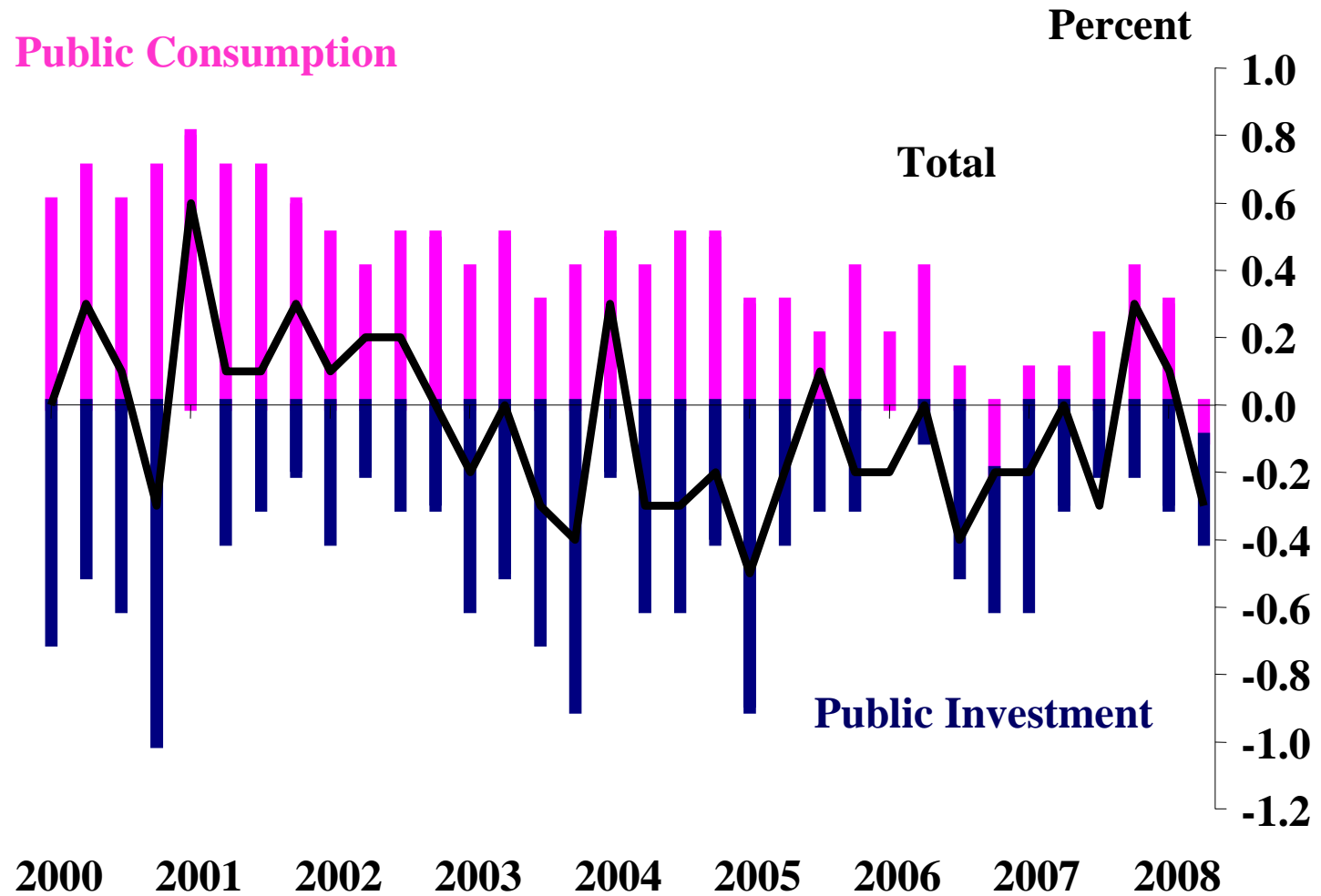
Unlike the early 1990s:



Source: Cabinet Office Japan

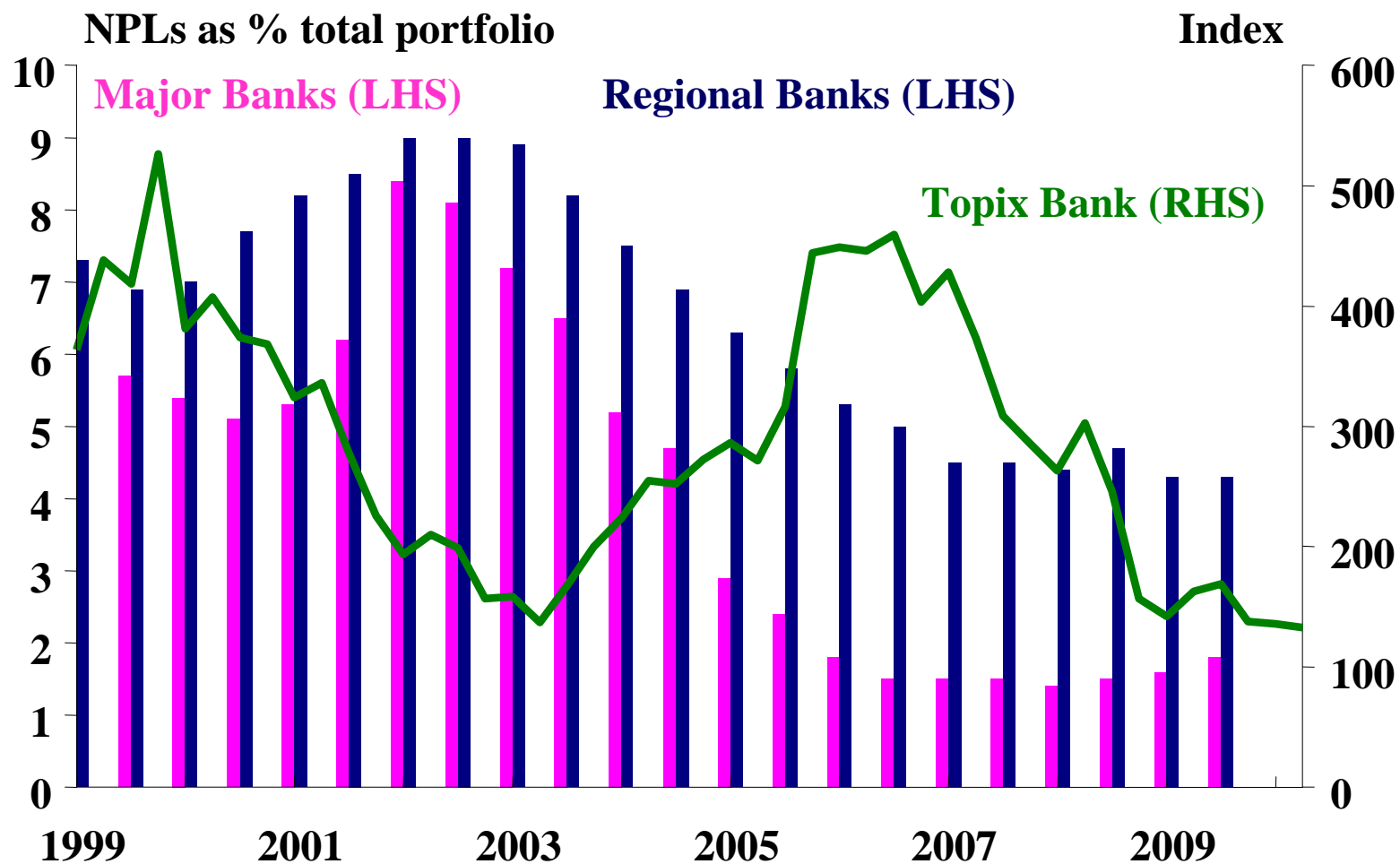
2000 Q1 – 2008 Q2

No public spending binge in Japan



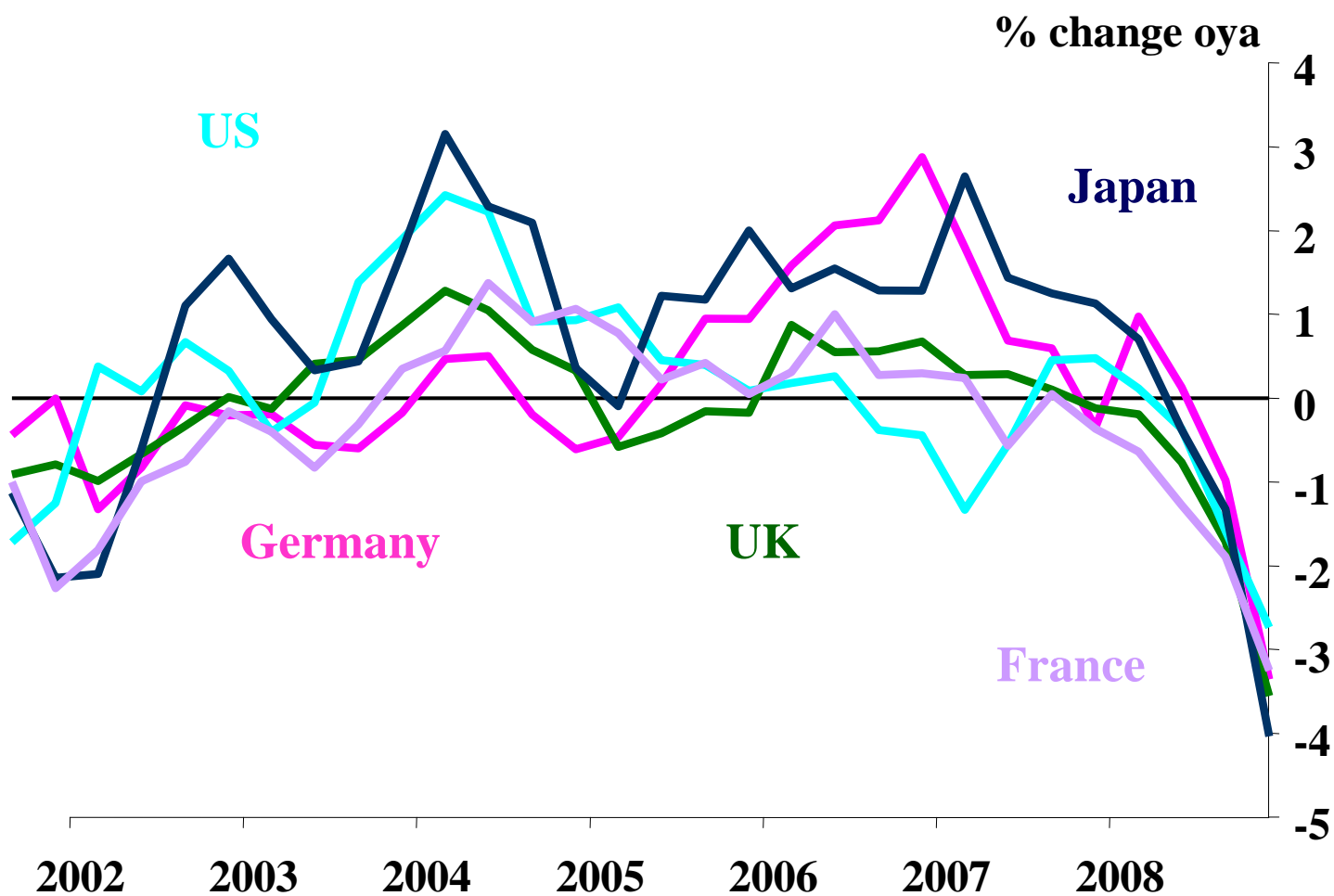
Source: Cabinet Office Japan

Even Japanese Banks respond to incentives



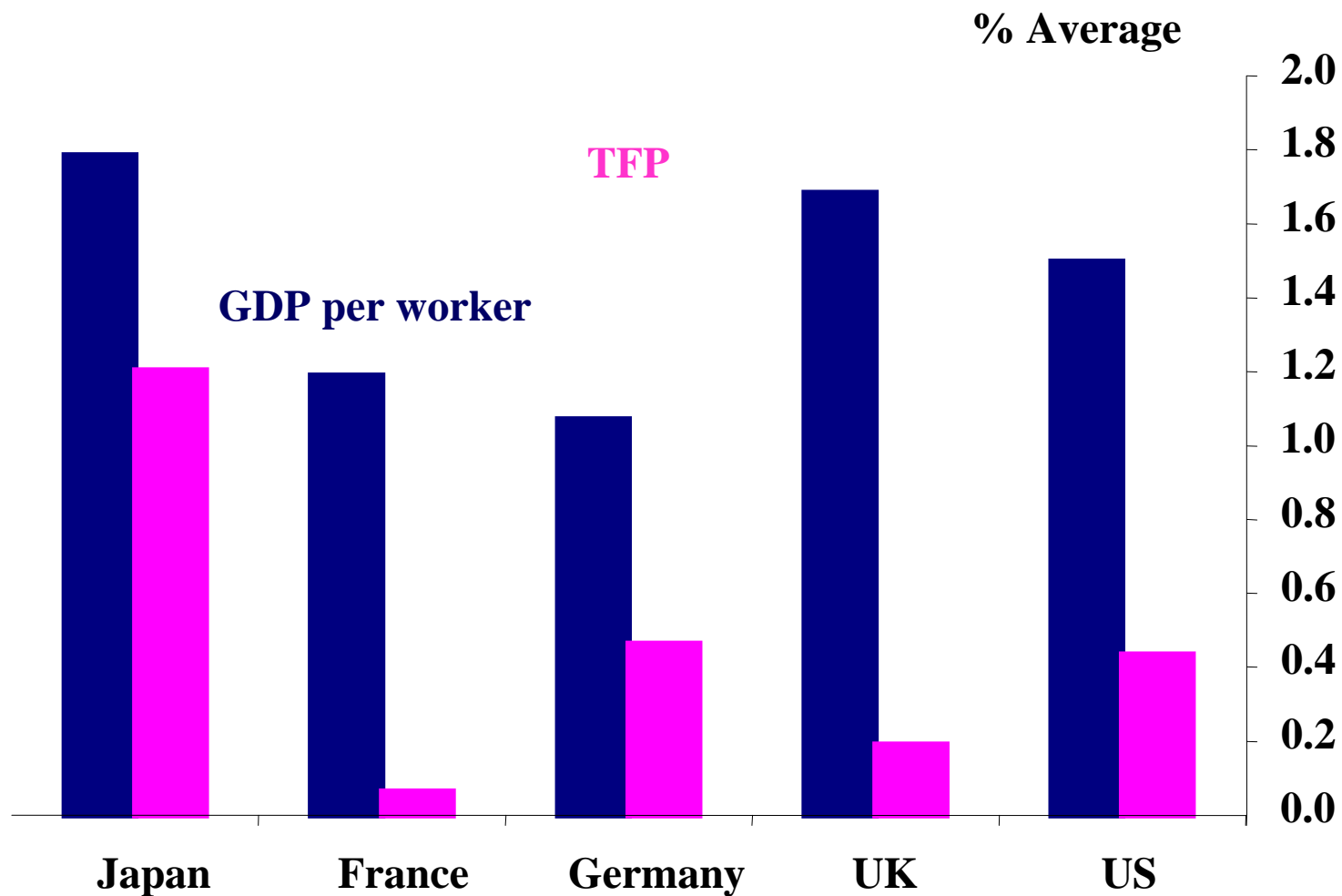
Source: Financial Services Agency Japan, Thompson Datastream

Japanese TFP: far from poor



Source: Thompson DataStream

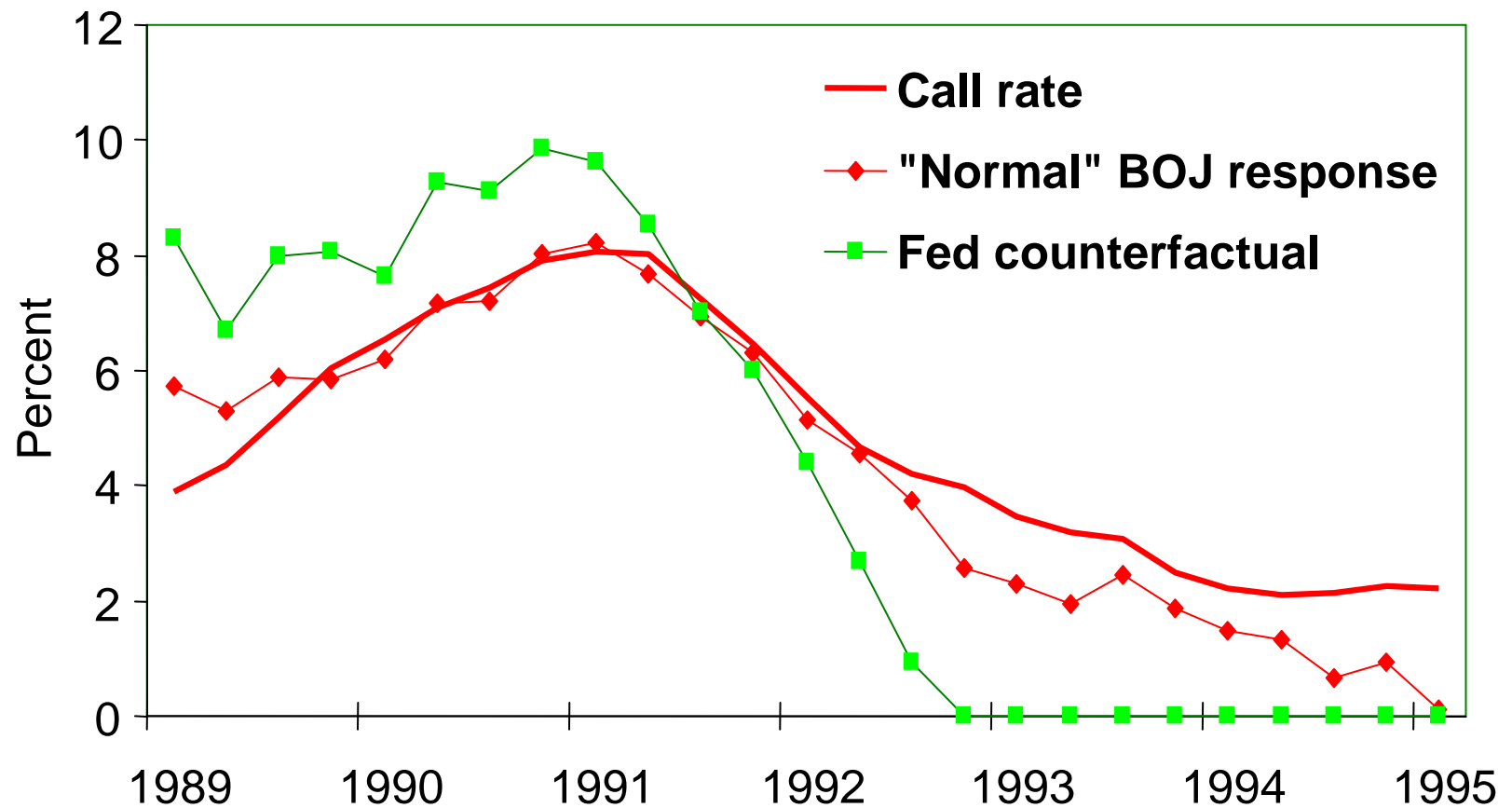
Average TFP and GDP per worker 2002: Q2-2008:Q2



Source: Thompson DataStream

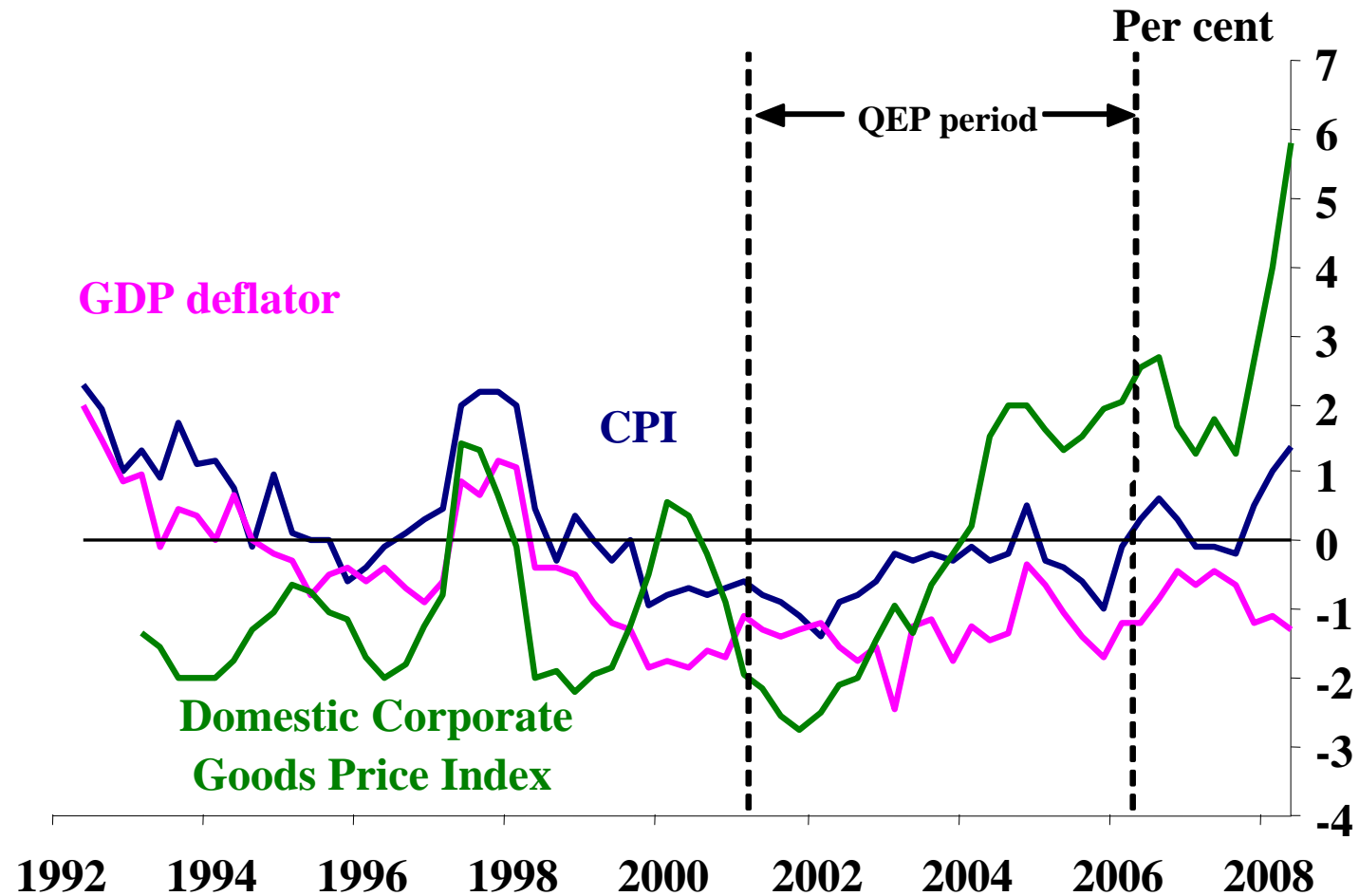


The BoJ's response to Japan's recession



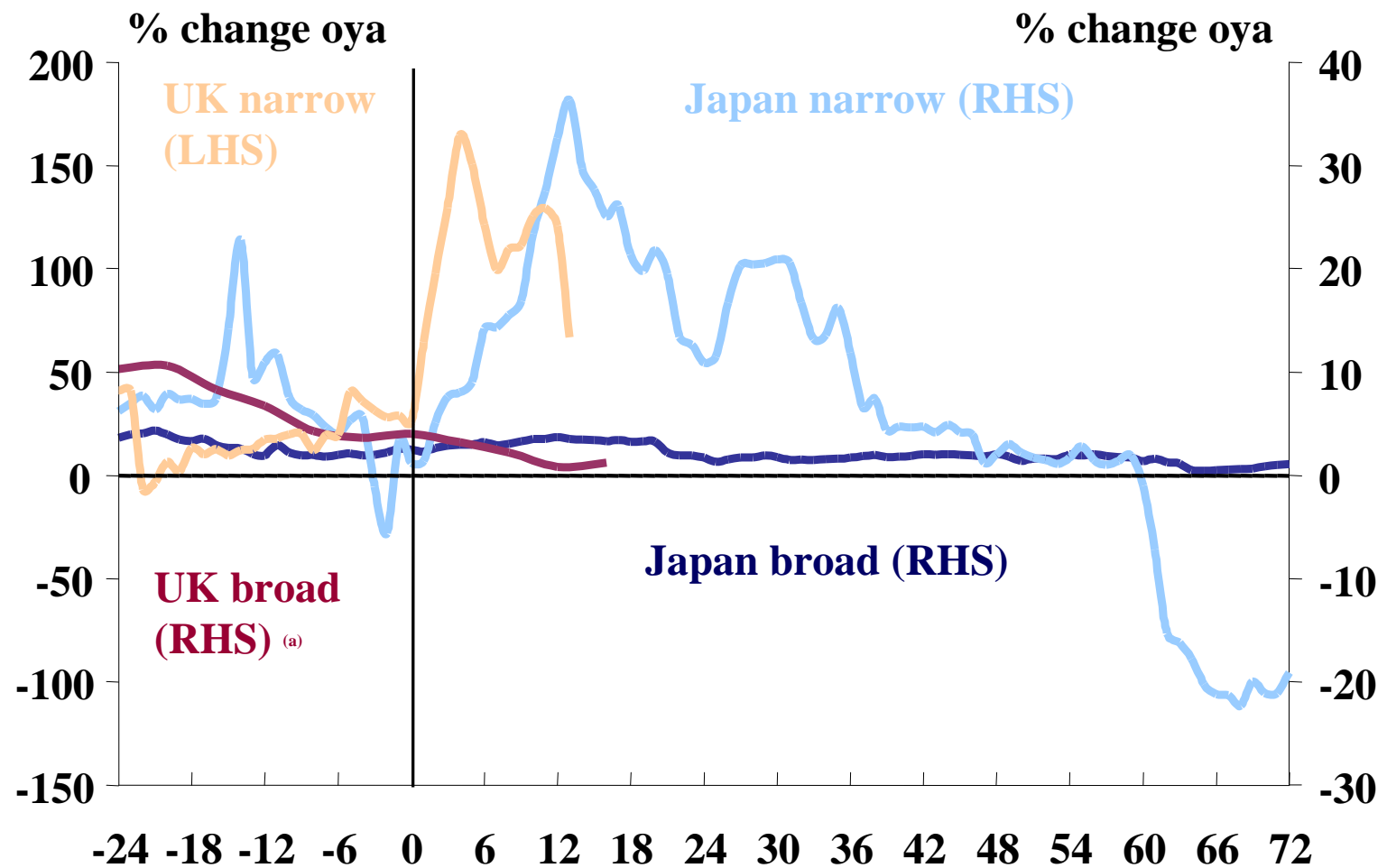
Source: Harrigan and Kuttner (2004)

Japanese inflation experience 1992:2008 Q2



Source: Bank of Japan

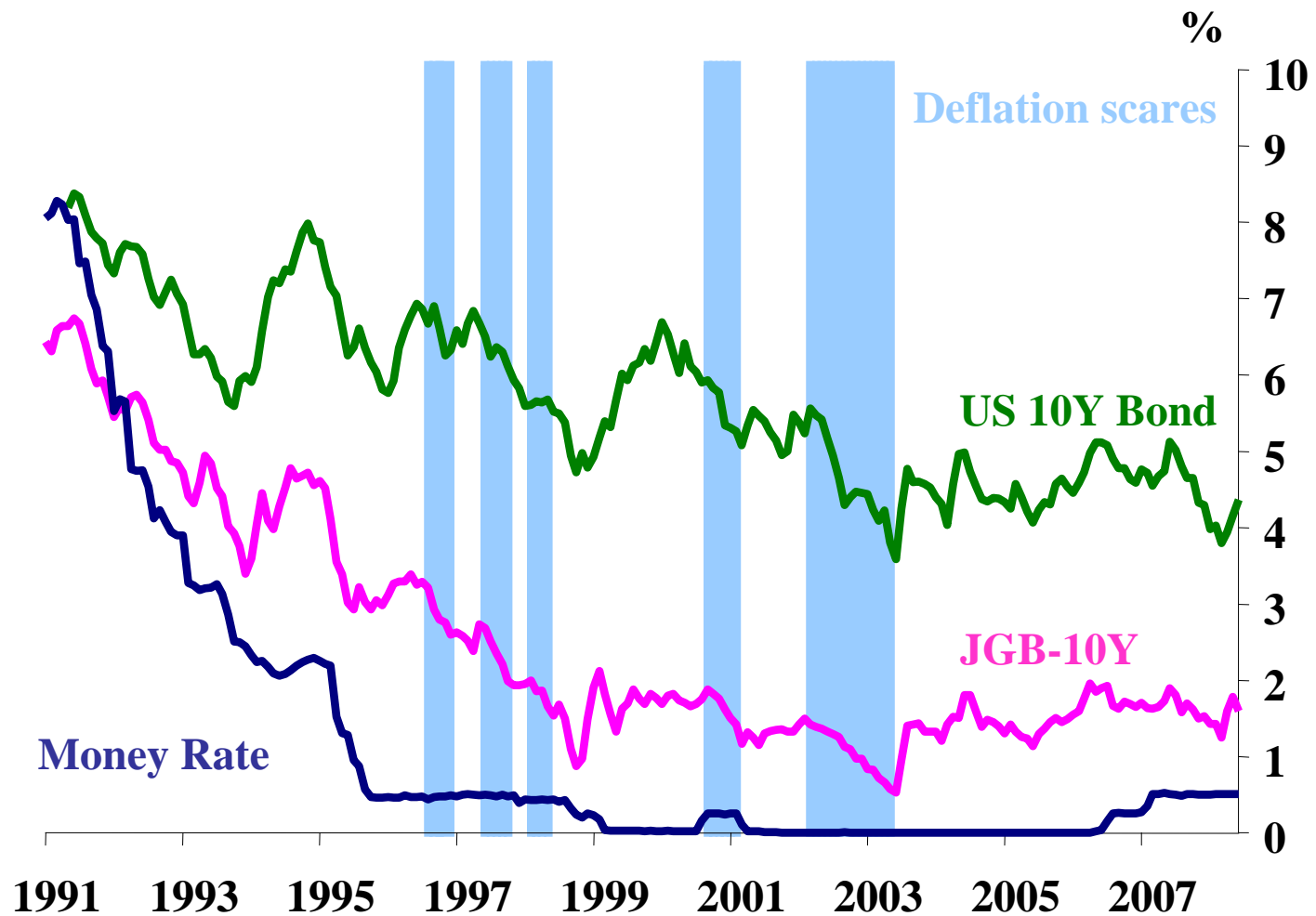
It is not clear that QE feeds into broad money with banking sector problems



(a) Excluding intermediate OFCs

Source: Bank of Japan and Bank of England

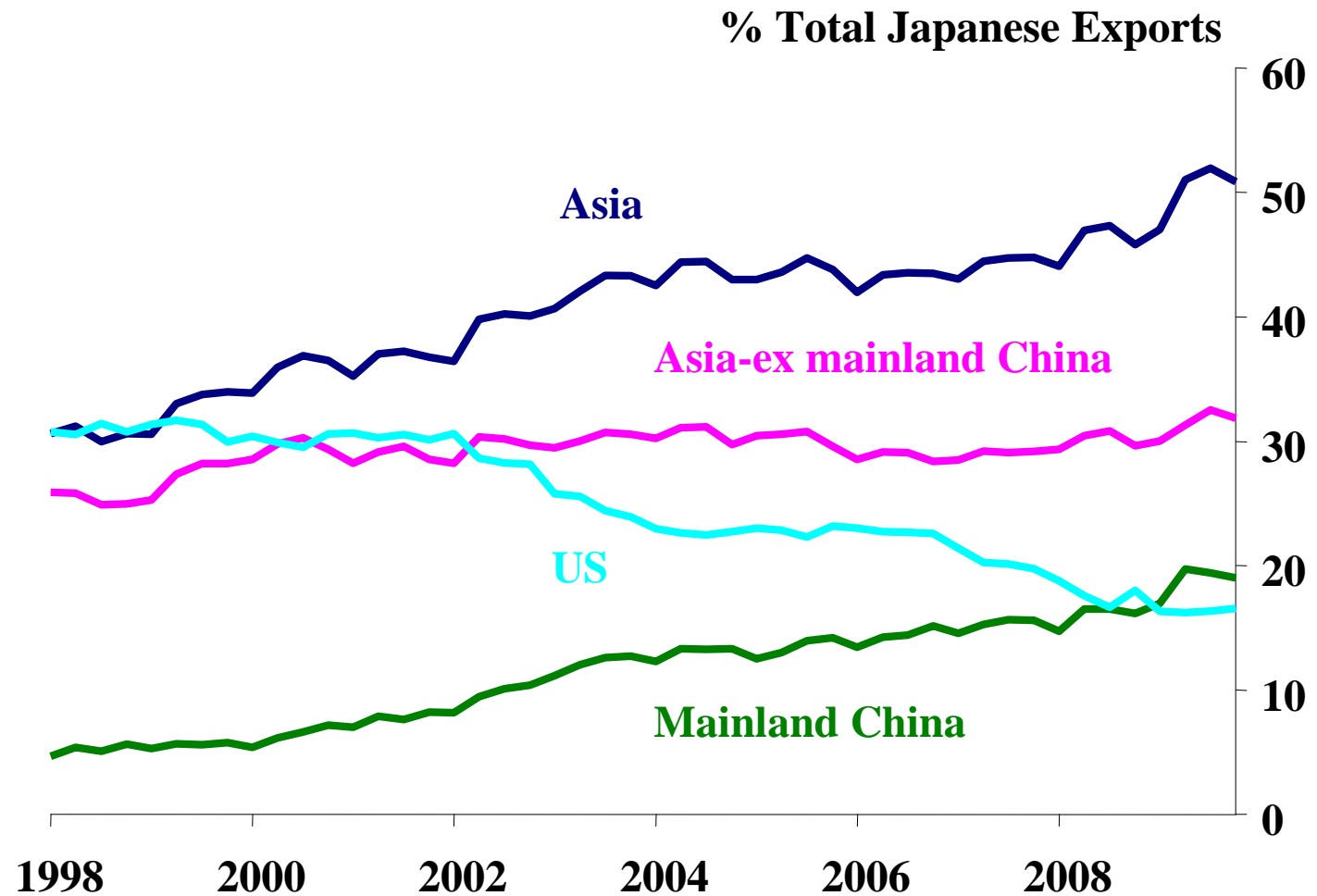
An independent central bank can affect expectations



Source: Thompson DataStream and Bank calculations

Adapted from Kuttner and Posen (2003)

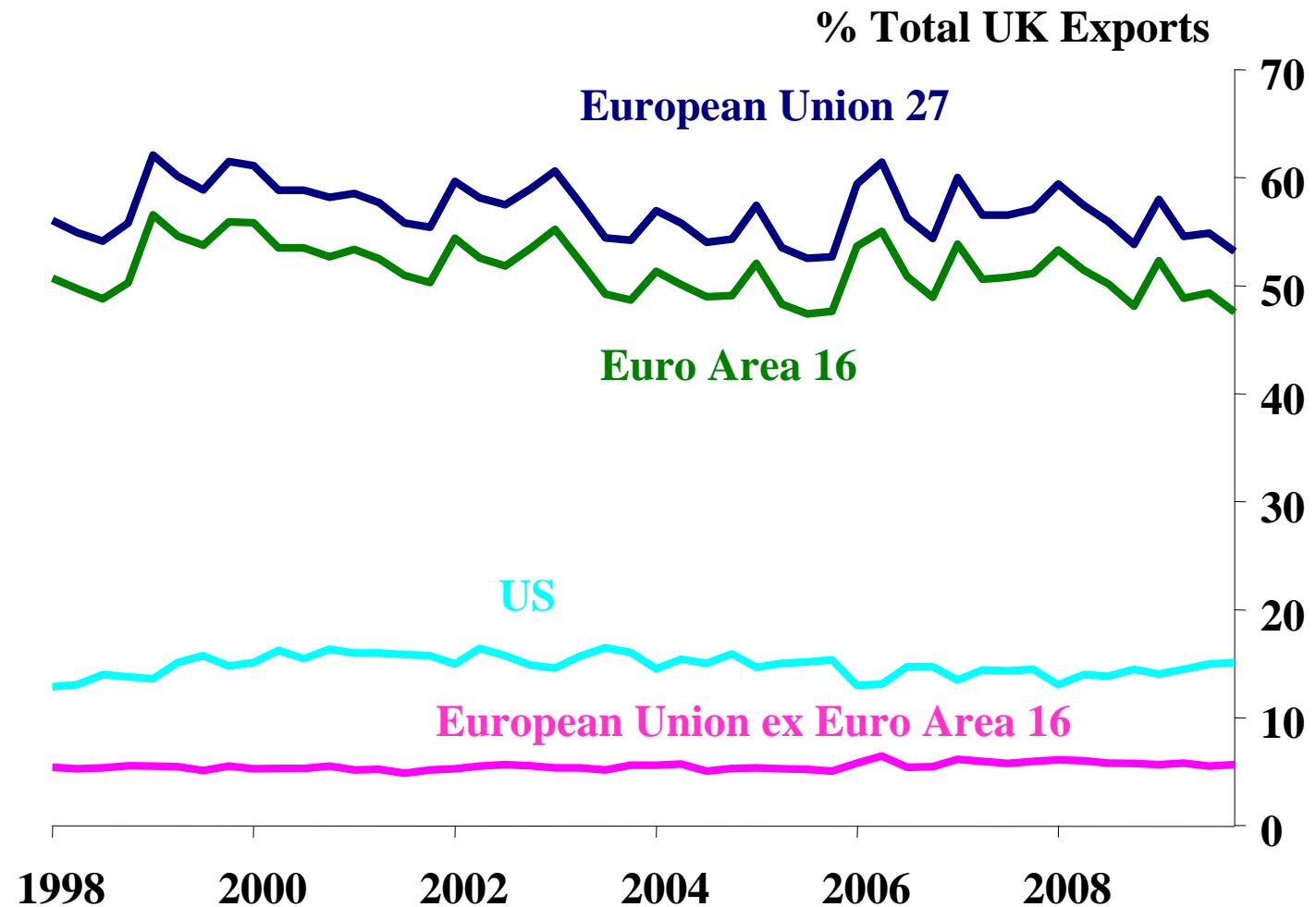
China's Importance as an export market has risen



Note: Asia includes Oceania, Hong Kong and Macau

Source: IMF Direction of Trade Statistics

For the UK, the Euro Area remains dominant



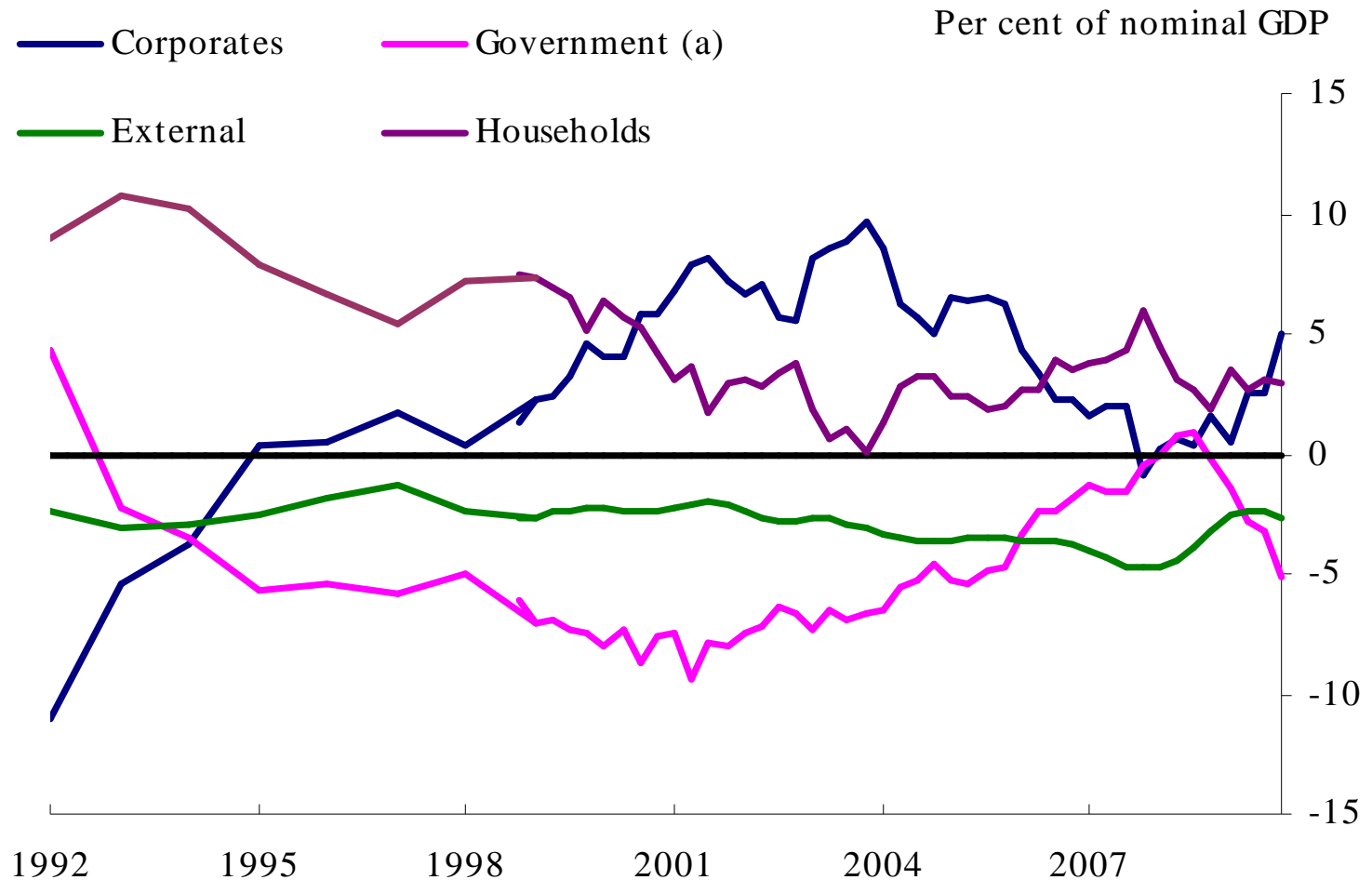
Source: IMF Direction of Trade Statistics

Structure of G7 Financial Markets

	Canada	France	Germany	Italy	Japan	UK	US	Average
Stock Market Capitalisation ^(a)	1.74	1.12	0.65	0.51	1.02	1.37	1.48	1.13
Private Sector Bond Market Capitalisation ^(b)	0.31	0.57	0.36	0.60	0.38	0.16	1.30	0.53
Short term Private Sector Securities ^(c)	0.11	0.22	0.21	0.01	0.07	0.16	0.26	0.15
Banking Sector Capitalisation ^(d)	1.41	1.21	1.20	1.27	1.51	1.90	0.69	1.31
Banking Sector Concentration ^(e)	0.57	0.55	0.74	0.40	0.54	0.72	0.35	0.55
Banks per Million Persons ^(f)	2.95	7.90	22.60	12.49	6.66	8.50	31.70	13.26

- (a) As ratio of GDP. Data as of end 2008, Source: World Bank Financial Structure Dataset
- (b) As ratio of GDP. Data as of end 2008, Source: World Bank Financial Structure Dataset
- (c) As ratio of GDP. Data as of end 2008, Source: Bank Calculations and BIS
- (d) Deposit money bank assets as ratio of GDP. Data as of end 2008, Source World Bank Financial Dataset
- (e) Assets of three largest banks as share of assets of all commercial banks. Data as end of 2008, Source: World Bank Financial Structure Dataset
- (f) Source: Bankscope, IMF and Bank Calculations

The Japanese private sector maintained large surpluses

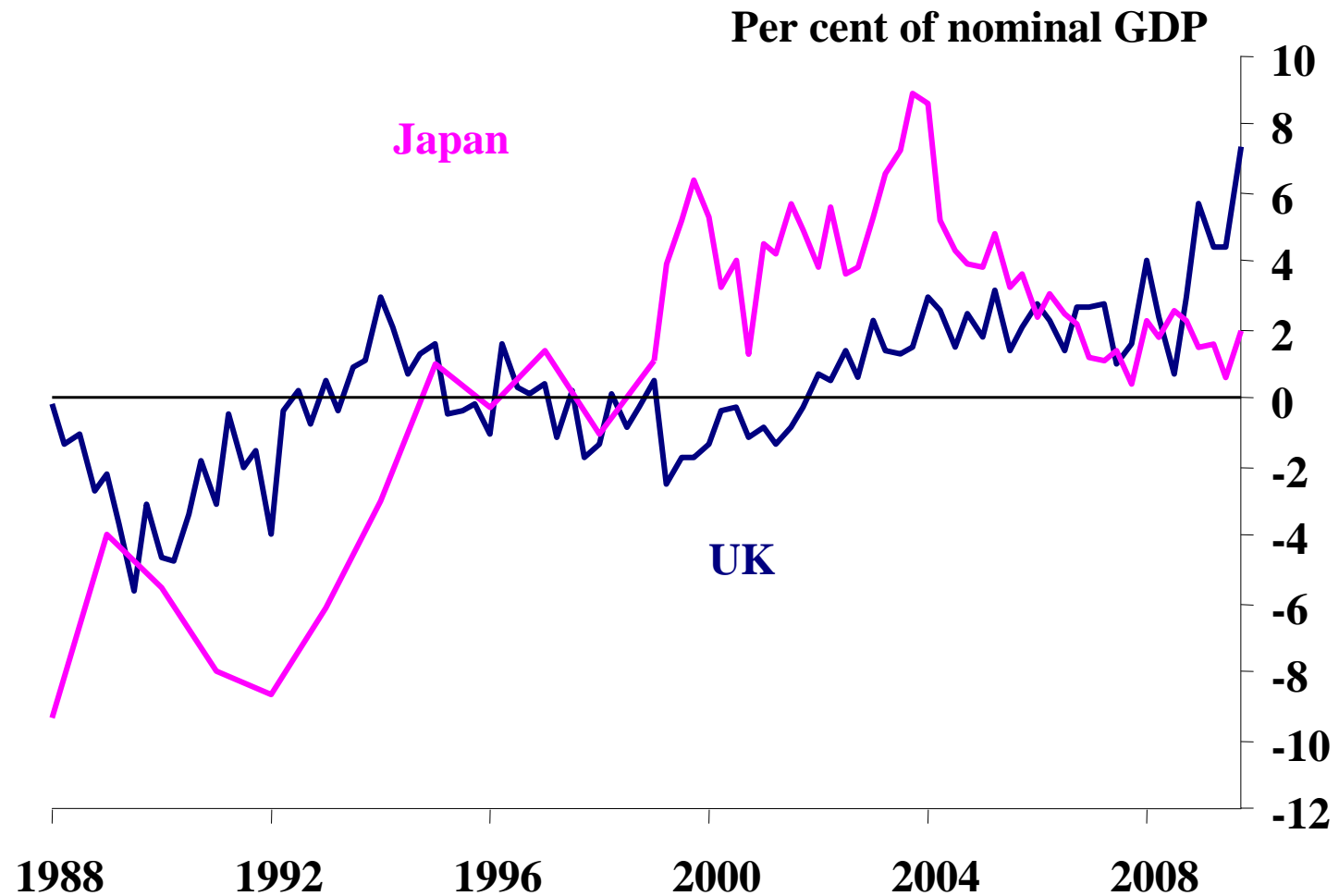


(a) Including public non financial corporations

Based on annual financial year data through 1998

Source: BoJ

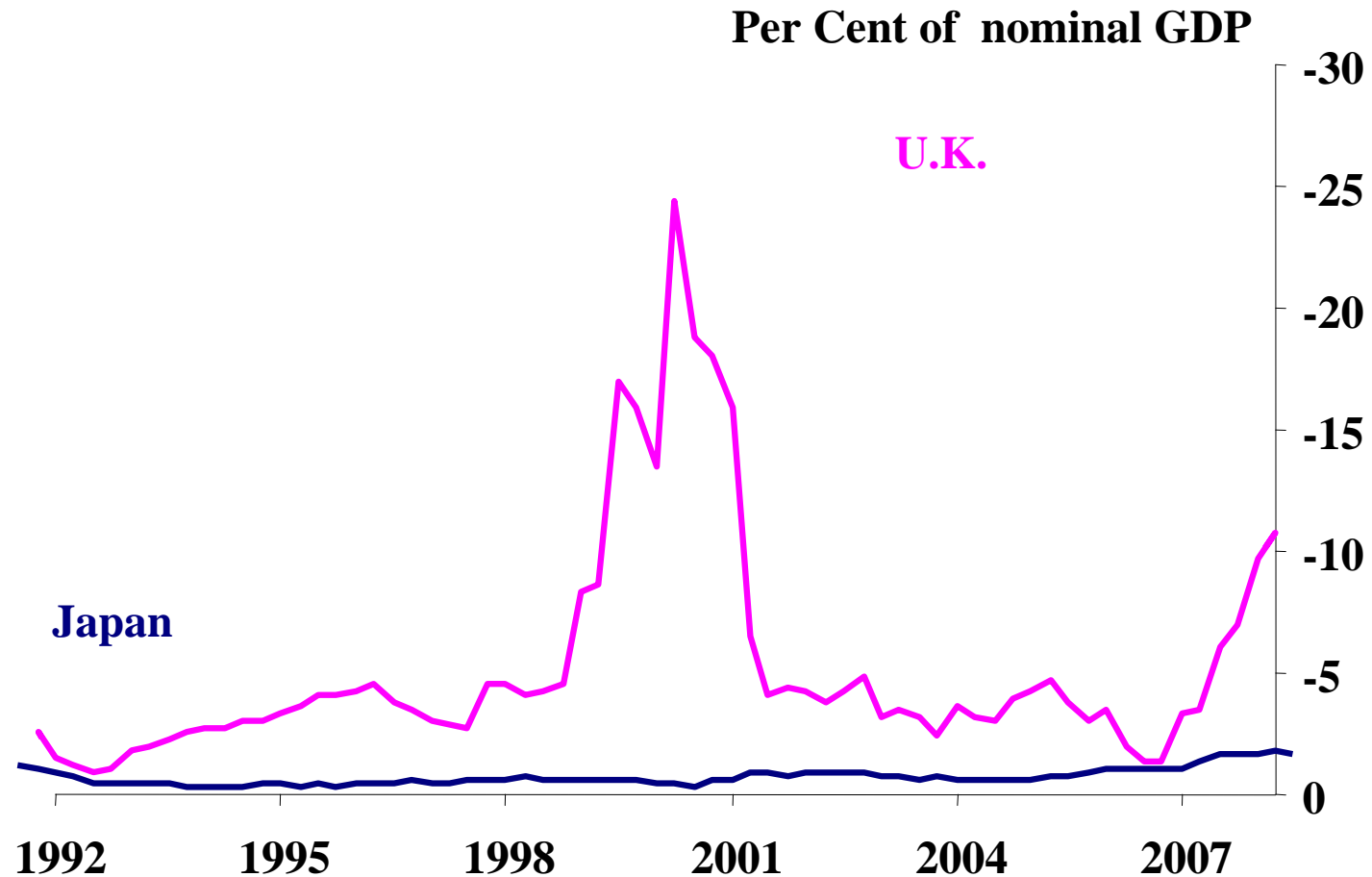
The UK corporate sector has recently built up an unusually large surplus



Japanese data based on annual financial year data through 1998

Source: BoJ and BoE

While some of the UK surpluses may feed into FDI outflows...Japanese corporates appeared to sit on them



Source: OECD BoP Statistics





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