

A New Start for Japan's Economy -The Path Towards Balanced Growth to the Year 2025

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Negative Growth until FY 2001 likely

Prolonged Capital Stock Adjustment Delays Recovery

Will it be possible for the economy to overcome the present hardships and find a new path to balanced growth? In this study, we find that it will be possible if we could meet certain conditions such as the elimination of excess capital, reforms in taxes and social security systems, and soon, which are all admittedly severe.

To summarize the path, in the first part of the forecast period(1995-2005), the economy will be overwhelmed by the need to overcome the recession, and to adjust the excesses in both financial and physical capital. The second period(2005-2015) will see great changes in demographics as the baby boomers will be leaving the labor market, and the children of the baby boomers will be busy raising their own children. The economy must be able to survive the increase in the fiscal burden, and the decrease in labor supply.

In the final decade of the forecast period(2015-2025), the increase in the elderly will have slowed, and fiscal and social insurance systems will have been rebuilt. The children of the baby boomers will have finished raising their children and will be free to reenter the labor force, and they will be eager to participate in a more flexible labor market. Economic growth will be at about 1.8% in this period, and the economy will be stable in its new growth path.

In the process, there will be great changes in the patterns we have seen until now: the wide gap between the exchange rate and purchasing power parity, the increasing capital coefficients, ever increasing asset prices, the ballooning of fiscal spending. Instead we will see the following new behavior patterns take root: the entrenchment of technological progress in the domestic goods industry, increased mobility in the labor market, a more independent and dynamic individual, a corporate management more geared towards profits, and cooperation and agreement among the citizens for welfare and environmental issues.