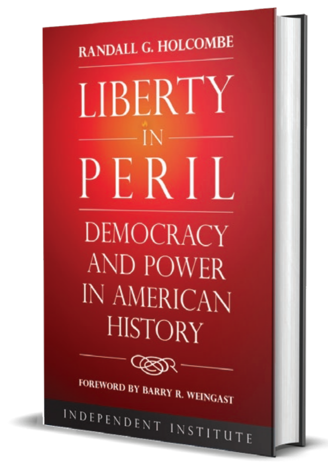
SUBSCRIBE NOW AND RECEIVE A FREE BOOK!

"***The Independent Review*** does not accept pronouncements of government officials nor the conventional wisdom at face value."
—**JOHN R. MACARTHUR**, Publisher, *Harper's*

"***The Independent Review*** is excellent."
—**GARY BECKER**, Nobel Laureate in Economic Sciences

Subscribe to *The Independent Review* and receive a free book of your choice such as ***Liberty in Peril: Democracy and Power in American History***, by Randall G. Holcombe.



Thought-provoking and educational, *The Independent Review* is blazing the way toward informed debate. This quarterly journal offers leading-edge insights on today's most critical issues in economics, healthcare, education, the environment, energy, defense, law, history, political science, philosophy, and sociology.

Student? Educator? Journalist? Business or civic leader? Engaged citizen? This journal is for YOU!

Order today for more *FREE* book options

SUBSCRIBE

The Independent Review is now available digitally on mobile devices and tablets via the Apple/Android App Stores and Magzter. Subscriptions and single issues start at $2.99. **Learn More.**

Download on the App Store
GET IT ON Google Play
Available on MAGZTER

Etceteras . . .

Pity the Poor Japanese

All but the very young can still remember the days when the Japanese economy struck fear in the hearts of many Americans. After restoring Japan's war-shattered infrastructure, the Japanese embarked on the most rapid economic growth any large country had ever maintained. By the 1980s, they had transformed their impoverished economy into the wonder of the world, bidding fair to overtake and surpass even the mighty U.S. economy in just a few years. Writers cranked out alarmist books with titles such as *The Japanese Challenge* (by Herman Kahn and Thomas Pepper, 1979), *Japan as Number One* (by Ezra Vogel, 1979), *The Enigma of Japanese Power* (by Karel van Wolferen, 1990), and *Power Japan* (by William T. Ziemba and Sandra L. Schwartz, 1992). During the 1980s, the prices of Japanese real estate and corporate stocks ascended to astronomical heights, and Japanese investors reached out to acquire ownership of landmark properties in the United States and Europe. It seemed that nothing could stop this economic behemoth.

Then the bubble burst, and Japan fell into a slump that has lasted more than ten years, with no end in sight. The sacrifice of even moderate economic growth for a decade has cost the Japanese people dearly, but that loss has been only one aspect of the failure of Japan's once-vaunted political economy. While asset values have plunged and gross domestic product (GDP) per capita has barely increased, one component of GDP has grown apace: government spending for infrastructure. Indeed, the Japanese government's principal response to the economy's protracted stagnation has been an on-again, off-again program of Keynesian pump priming financed by increased public debt and concentrated on public-works construction projects (Bayoumi et al. 1998, 10, 41, 51; Morsink et al. 1999, 4–9, 14, 24–26). Somewhere in hell, Rexford Tugwell, Harry Hopkins, Harold Ickes, and the other New Deal make-work kingpins must be smiling.

In truth, the Japanese were no strangers to such boondoggles even before the great bust. National accounts data compiled by the Organization for Economic Cooperation and Development (OECD) reveal that as far back as 1965, when Japan still had a relatively low ratio of total government spending to GDP (just 19 percent, compared to an OECD average of 27 percent), the government's spending on fixed-capital projects consumed 5.0 percent of the GDP (compared to an OECD average of

3.5 percent). Such spending rose more quickly than the national product even during the economic golden age between 1965 and 1990, and by the latter year it amounted to 6.0 percent of GDP (compared to an OECD average of 3.8 percent). (For convenient compilations of the pertinent data, see Paul Atkinson and Paul van den Noord's 2001 paper "Managing Public Expenditure: Some Emerging Policy Issues and a Framework for Analysis.")

During the 1990s, however, the government-financed bulldozing of dirt and pouring of concrete assumed unprecedented dimensions. By 1995, public-works spending was eating up nearly 8 percent of GDP, and five years later it remained stuck at that elevated level (relative to an OECD average of 3.4 percent in 2000; see Atkinson and van den Noord 2001, 49).

Obviously, all this ostensible pump priming has failed to restore prosperity in Nippon, as anyone with a genuine understanding of economics would have foreseen. Between 1989 and 1999, Japan's real GDP grew at an average annual rate of only 1.7 percent; between 1995 and 1999, it grew at just 1.2 percent—less than a third of the 4 percent growth rate during the 1980s. Among the twenty-nine member states of the OECD, only the Czech Republic did worse during the late 1990s (OECD 2000, 14, 78). Between 1980 and 1990, Japan's real GDP per capita, relative to that of the United States, had increased from 69 percent to 81 percent, but by 1999 it had fallen back to 72 percent (ratios for 1980 and 1990 calculated from data in U.S. Bureau of the Census 1997, 839; data for 1999 are from OECD 2000, 79).

Because a growing proportion of Japan's GDP has consisted of government-financed infrastructure spending, the economy has actually been performing even more poorly than indicated by the commonly cited figures, which count government spending on a yen-for-yen basis with private spending by consumers and investors, who use their own funds to make the purchases and therefore must weigh the personal trade-offs entailed by their choices. Between fiscal year 1990 and fiscal year 2000 (for which only preliminary data are available as I write), Japan's real GDP increased by 13 percent (Cabinet Office Government of Japan, national accounts data available at www.stat.go.jp/english/data/figures/zuhyou/1624.xls). Because the government share of GDP increased from 31.3 percent to 38.3 percent during that decade (Atkinson and van den Noord 2001, 7), the implication is that the private part of GDP increased by a grand total of just 1.5 percent—that's not 1.5 percent *per year,* but 1.5 percent *in ten years.* Because the population increased by approximately 2.7 percent during the same decade, *private* GDP per capita actually fell. Japan's economy has not just grown slowly since 1990; the part that has some solid meaning has actually contracted on a per capita basis, notwithstanding the inspired Keynesian antics of the politicos and their kept geniuses at the Ministry of Finance.

Like most so-called failed government policies, however, Japan's public-works binge has achieved its actual purpose, as opposed to its declared purpose. In Japan, even more so than in the United States, public-works spending serves as an important means by which politicians reward their friends and supporters. For the oligarchs of the long-ruling Liberal Democratic Party, building ever more roads, bridges, airports, tunnels, and so forth sustains a sprawling complex of government bureaucrats and hundreds of thousands of small construction companies and materials suppliers beholden to their political benefactors (Bremner 2001; Millett 2001; WuDunn 1998). In Japan, nearly 10 percent of the labor force finds employment in the construction sector (Morsink et al. 1999, 25), whereas in the United States the corresponding ratio is less than 5 percent (calculated from data in U.S. Bureau of the Census 1997, 424). Much of the government-financed construction work in Japan is, in effect, little more than make-work projects whose costs far exceed their true market value. Their political value, however, is obviously considerable.

ROBERT HIGGS

References

Atkinson, Paul, and Paul van den Noord. 2001. Managing Public Expenditure: Some Emerging Policy Issues and a Framework for Analysis. Organization for Economic Cooperation and Development Economics Department Working Paper no. 285, February 8. Available at: http://www.oecd.org/pdf/M00002000/M00002529.pdf.

Bayoumi, T., C. Towe, J. Morsink, and I. Oishi. 1998. *Japan: Selected Issues.* IMF Staff Country Report no. 98/113, October. Washington, D.C.: IMF.

Bremner, Brian. 2001. Big Spenders and the Great Seaweed Slaughter. *BusinessWeek Online,* February 6. Available at: http://www.businessweek.com/bwdaily/dnflash/feb2001/nf2001026_998.htm.

Millett, Michael. 2001. Deconstructing Japan's Obsession with Public Spending. November 17. Available at: http://www.theage.com/au/cgi-bin/common.

Morsink, J., R. Ramaswamy, M. Muhleisen, and I. Oishi. 1999. *Japan: Economic and Policy Developments.* IMF Staff Country Report no. 99/114, October. Washington, D.C.: IMF.

Organization for Economic Cooperation and Development (OECD). 2000. *OECD in Figures: Statistics on the Member Countries.* Paris: OECD, 2000.

U.S. Bureau of the Census. 1997. *Statistical Abstract of the United States, 1997.* Washington, D.C.: Government Printing Office, 1997.

WuDunn, Sheryl. 1998. Japanese Liberal Democratic Party Backs $124-Billion Economic Plan. *New York Times,* March 27. Available at http://www-personal.umd.umich.edu/~mtwomey/newspapers/0326japa.html.

Reprinted with special permission of King Features Syndicate.