The Postwar Years in Japan

Before discussing the current status of Japan’s economy, let us examine its background with a long-term overview of the economy’s development since World War II.

World War II ended with Japan’s defeat in 1945, and the country’s industrial infrastructure was completely devastated. A combination of low production capacity and booming demand linked to national reconstruction led to hyperinflation. Against the backdrop of the ongoing Chinese Communist revolution, the US occupation of Japan shifted from a punitive policy to one of support for reconstruction. A 1949 budget recommendation commonly known as the Dodge Line was aimed at balancing the budget, fixing the exchange rate, and reducing inflation, but also resulted in a type of recession called a stabilization crisis.

The second cycle of the postwar years was tied to the outbreak of the Korean War (1950-1953), and was referred to as the Special Procurement Boom (tokuju keiki in Japanese, referring to an economic boom due to special procurements, especially in wartime). In fiscal 1953 there was a drastically expanded budget and surge in imports due to crop damage from cold weather, resulting in a trade deficit and currency crisis, meaning that the budget had to be scaled back down in fiscal 1954. The declining phase of the second postwar economic cycle was named “Yoshida deflation” after Prime Minister Shigeru Yoshida, and hit its low point in November 1954.

Next came a rebound known as the Quantitative Boom (suryo keiki), driven by rising exports due to improved global economic conditions, and the stabilization of prices. This boom, which led to capital investment-propelled economic expansion (inflationary expansion) in 1956, constituted the expansionary phase of the third postwar economic cycle. The robust economy was nicknamed the Jimmu Boom after the nation’s first Emperor (Emperor Jimmu, accession traditionally dated 660 BC), indicating the fact that it marked the first truly widespread prosperity in Japan’s history. The 1956 Economic White Paper famously stated mohaya “sengo” dewa nai (it is no longer “postwar”), declaring that economic growth due to recovery-based demand was at an end, and growth would from then on be driven by modernization. However, this 31-month economic expansion phase drew to a close in June 1957, hitting the “ceiling on international balance of payments” as it completed a cycle of burgeoning domestic demand → rising imports → currency crisis → monetary tightening (deflationary policy). The ensuing recession, nicknamed the “bottom-of-the-pot recession” because stagnant conditions were expected to last for a long time, actually bottomed out after 12 months.

Rapid Economic Growth: the “Postwar Japanese Economic Miracle”

The period of rapid economic growth remembered as the postwar Japanese economic miracle began with the fourth postwar economic cycle, starting in June 1958 with an upturn called the Iwato Boom. Iwato refers to an episode from Japanese mythology occurring before the accession of the first Emperor, and indicates the fact that Japan had never known such a boom even during the Jimmu Boom years. It originally stemmed from rapid economic recovery in the United States, but was characterized by a
domestic consumption boom in Japan as standards of living rose and households raced to obtain the “three sacred treasures” (black-and-white television, washing machine, refrigerator). In December 1960 the third long-term economic plan, known as the National Income Doubling Plan, was formulated, and the average annual rate of economic growth over the ensuing years was forecast at 7.2% (in fact it turned out to be 10.0%). The Iwato Boom reached its peak in autumn 1961 due to monetary tightening, again due to hitting the “ceiling on international balance of payments”.

In 1959, Tokyo was selected as the host city for the 1964 Olympics. Monetary tightening was relieved over the short term due to an economic upswing in Europe and the US, and in Japan there was a boom in private-sector construction with various large-scale projects requiring completion in time for the Games: the Shinkansen high-speed rail line, expressways, high-rise buildings. The expansionary phase of the fifth postwar economic cycle, nicknamed the Olympic Boom, began in October 1962. Monetary tightening, in response to worsening of the international balance of payments, was set in motion at the end of 1963, and revoked in 1964. From around 1960 onward, trade liberalization had been progressing in Japan, and in 1963 Japan gained status as one of the GATT (General Agreement on Tariffs and Trade) Article XI nations (countries that cannot restrict imports on the basis of an international balance-of-payments deficit). In September 1964, the IMF World Congress was held in Tokyo and Japan became one of the IMF Article VIII nations (countries that do not exercise foreign exchange control for international balance-of-payment reasons). Japan had already joined the OECD in spring 1964.

This growth phase was brought to an end by domestic factors, primarily the capital investment cycle but also the plateauing of consumption and a construction-industry slump following the pre-Olympic building boom. The 12-month recession beginning in October 1964 entailed major corporate failures such as that of Yamaichi Securities, and was referred to as a “securities recession” or “structural recession”. To address the severe downturn, in the fiscal 1965 supplementary budget the government issued the first deficit-financing government bonds since the enactment of the Public Finance Law, and in the budgets from fiscal 1966 onward took the measures of issuing construction bonds and slashing taxes.

Thanks to these economic measures and a rise in exports, the economy bottomed out, and the very long sixth cycle started in October 1965 with a 57-month growth phase named the Izanagi Boom. Izanagi is one of the earliest deities in Japanese mythology, and the name implied an economic boom unprecedented even by the iwato era. Capital investment recovered, and there was a rise in exports, housing investment, and demand for a wide range of items. A hallmark of personal consumption was the “new three sacred treasures” or “3 Cs”: Car, Color TV, and (air) Conditioner. The US’s full-scale involvement in Vietnam brought indirect demand for “special procurements” to Japan, and around 1968 the country began showing a consistent international balance-of-payments surplus, while the US fell into a major trade deficit. In 1969 Japan-US textile negotiations began. Monetary tightening was implemented amid rising wages and prices, and the Izanagi Boom hit its peak in July 1970 while the World’s Fair was underway in Osaka. In August 1971 US President Richard Nixon made an emergency economic policy announcement, including the unilateral cancellation of direct convertibility of the US dollar to gold, throwing the global economy into confusion that came to be known as Nixon Shock. In December the Smithsonian Agreement changed the dollar-to-yen exchange rate from 360 yen to the dollar to 308 yen, and the Japanese economy hit bottom the same month.

During the seventh cycle, the economy bounced back with a large national budget for fiscal 1972. July of that year saw the launch of Prime Minister Kakuei Tanaka’s Cabinet, which advocated Nihon retto kaizoron (“reconstructing the Japanese archipelago”), the potential for which sparked a boom marked by rising land values, stock prices, consumer prices, and wages. Across the Pacific, the US trade deficit continued, and in 1973 one currency after another switched over to a floating exchange rate system, resulting in “excess liquidity”. There was a global crunch in crop supply, and Japan issued another big
budget in fiscal 1973 to fund the "reconstruction of the archipelago", driving inflation. In the Middle East, the outbreak of the Yom Kippur War between Israel and a coalition of Arab states in October 1973 led to the first oil crisis, as oil-producing states significantly raised oil prices, and after hitting a high point in November, the Japanese "economic miracle" era finally drew to a close.

Over this entire period of rapid economic growth, the average annual growth rate was 9.4%, and the total unemployment rate stayed between 1% and 2% from 1960 onward, while economic dualism due to the disparity between major modern corporations and pre-modern economic sectors was alleviated. At the same time, the economic miracle cast a lasting shadow on society in the form of worsening pollution and regional disparities marked by urban overcrowding and rural depopulation.

The Era of Stable Economic Growth

In 1974, Japan's economy contracted for the first time since World War II ended. After measures including monetary tightening, reining in of public works projects, a radically curtailed budget for fiscal 1974 and other comprehensive demand-control policies, direct intervention in consumer prices, and labor-management cooperation in the annual spring labor negotiations of 1975, inflation was finally curbed, and economic growth recommenced with the start of the eighth cycle in March 1975.

Anti-recession measures accompanied by issuing of deficit-financing national bonds were implemented, starting with the supplementary budget of fiscal 1975. An export recovery brought the international balance of payments back to a surplus in 1976, and at the 1977 London Summit, it was postulated that the US, West Germany, and Japan should play the role of a "steam engine" pulling the global economy. However, in January 1977 the Japanese economy fell into a "mini-recession" to adjust for various factors. With economic measures implemented, it pulled out of the recession in October of the same year and the growth phase of the ninth cycle began.

In 1978, there was a general move toward economic recovery among developed nations, and oil supply and demand began to even out. However, in autumn of that year Iran instituted a ban on oil exports as the Islamic Revolution gathered steam, prompting an OPEC decision to raise oil prices progressively from 1979 onward, with price increases every few months through November 1980. This was the second oil crisis, and the downturn phase of Japan's ninth economic cycle was the longest since the war, lasting 36 months starting in February 1980. While the second oil crisis surpassed the first in terms of the size of price increases and the amount of income transferred overseas, the impact on Japan's economy was smaller in terms of growth rate and consumer price increase rate, and the unemployment rate rose no more than during the first crisis. This was due not only to differences in initial conditions such as the money supply, but also to larger oil stockpiles and to various lessons the government, Bank of Japan, and private-sector labor and management had absorbed from the first crisis.

The US is viewed as having been more strongly affected by the second oil crisis than Japan, but with stringent monetary tightening by the FRB (Federal Reserve Bank), its economy bottomed out at the end of 1982. As exports to the US increased, the Japanese economy recovered as well, entering the economic growth phase of the 10th cycle in March 1983. US President Ronald Reagan's economic policy was described as "supply-side", and slashing of taxes led to a budget deficit, causing high interest rates and dollar appreciation, expanding the country's trade deficit toward Japan. In the US, however, this imbalance was blamed on unfair Japanese trade policies, and the issue of "Japan-US trade friction" emerged.

The US policy stance, which until 1984 had advocated liberalization of capital and currency trading and encouraged imports through expansion of domestic demand, shifted in 1985 toward a growing protectionist movement and international cooperation aimed at weakening the dollar, based on fears that an excessively valued dollar would suddenly crash. The yen began gaining against the dollar in February 1985, but its sudden, drastic appreciation occurred following the Plaza Accord, announced on September 22 after negotiations among Japan, the US, the UK,
France, and Germany. Exports were already stagnant, and the Japanese economy hit its peak in June 1985, after which it slumped in a strong-yen-driven recession.

The yen skyrocketed against the dollar, from approximately 240 yen to around 155 yen to the dollar a year later in August 1986. This struck a particularly heavy blow to export-based industries like electrical appliances and automobiles, who saw their profits slashed, and employment suffered as manufacturers began shifting production to other countries through overseas direct investment.

Measures taken to combat the recession caused by yen appreciation included expansion of public works projects and low interest rates instituted by the Bank of Japan to stabilize the exchange rate. Due to economic stagnation, however, surplus funds flowed into the real estate and securities markets, triggering an across-the-board rise in asset values known as a bubble (the annual Economic White Paper did not acknowledge the bubble until 1991, when it described it as "a phenomenon in which the real prices of assets are significantly higher than their fundamental values"). The economy hit a low point in November 1986 and began rising in the growth phase of the 11th economic cycle, the legendary asset price bubble (bubble keiki). The officially appraised values of land in 1988 were 21.7% higher on average than the previous year, while residential land values in the greater Tokyo metropolitan area shot up 68.6%, highlighting the disparity between urban and rural areas.

Even with a surging yen and weak dollar, exports did not decline noticeably on a dollar basis, due in part to the so-called J-curve effect, meaning that Japan-US trade friction remained a major political issue. In 1986 the Maekawa Report was released, calling for improvement of Japanese citizens' living conditions through expansion of domestic demand, opening of markets, and financial deregulation, and in 1987 this was more concretely codified in the Economic Council’s road map for structural reform, known as the New Maekawa Report. The New Maekawa Report advocated expanding domestic demand, cutting working hours (aiming for an 1,800-hour work year as soon as possible, with sights set on the year 2000), an industrial structure consistent with international harmony, coping with problems in employment, economic measures for regions outside major urban centers, and Japan's contributions to the world. The strong yen and the asset price bubble turned Japan into an “affluent” country, but it was noted that people did not feel prosperous unless they traveled overseas, and the reduction of work hours and correction of overseas and domestic price disparities were serious challenges. In 1989 and 1990, Japan and the US worked on the Structural Impediments Initiative, and based on this, a basic plan was formulated for 430 trillion yen in public investment over the decade beginning in fiscal 1991.

The Era of Slow Growth

The Japanese stock market continued rising until the end of 1989, and land values until 1991, before both began falling. This was the so-called "collapse of the bubble". The drop in land prices, the first since World War II ended, went on until around 2005. The recession that began in February 1991 was fought with a variety of fiscal and economic measures including increased public works spending, reduced taxes, deregulation, and disposal of bad loans. With the Basel Capital Accord (a uniform international standard for banks’ capital asset ratios) scheduled for application in Japan at the end of March 1993, banks became more reluctant to approve loans.

With the recovery of exports, progress of inventory adjustment, and support from economic measures, the economy bottomed out in October 1993 and went into the growth phase of the 12th cycle, but the recovery was gradual due to factors such as the Great Hanshin-Awaji Earthquake and sharp yen appreciation in the first half of 1995 (Figure I-1), and corporate balance sheet adjustment aimed more at returning loans than pursuing profits amid disinflation. Even as the economy recovered, the total unemployment rate continued to rise, finally starting to level off at around 3.5% in 1996. Young job seekers had great difficulty finding employment for an entire decade, from the graduates of March 1994 until around 2005, in what was known as the Employment Ice Age (shushoku hyogaki) (Figure I-3). Nonetheless, by around 1997, of the "three
excesses” (capacity, employment, and debt), two (excess capacity and excess employment) had been virtually overcome.

The consumption tax, first introduced at 3% in 1989, was raised to 5% in April 1997. Prior to the tax rate hike there was a surge in sales of consumer products, while consumption slumped after the rate rose. Meanwhile, income tax and residential tax breaks (implemented since fiscal 1994 ahead of the consumption tax hike in order to offset its effects) were phased out, social insurance premiums were raised, and out-of-pocket payments for medical expenses rose as well. The economy hit a high the following month, May 1997, and began dropping, but what greatly exacerbated the ensuing recession was the Asian currency crisis and associated financial volatility.

The Berlin Wall fell in 1989 and Germany was reunited the following year, while the Soviet Union collapsed in 1991 and China shifted to a Socialist system with a free-market economy in 1993, all milestones in the end of the Cold War. Meanwhile, commercial utilization of the Internet was spreading (first coming to Japan in 1993), and the era of globalization and connectedness had arrived, marked by rapid global transfer of goods, money, and information. This was accompanied by the advent of hedge funds, investment vehicles handling enormous amounts of capital, leading in 1992 to the withdrawal of the British pound from the ERM (European Exchange Rate Mechanism) and to the speculation in the Thai, Indonesian, and Korean currencies resulting in the 1997 Asian currency crisis. This crisis affected Japan in terms of payment of bailout funds and a decline in exports.

Meanwhile, financial instability drastically worsened with the revelation of bad loans at banks’ mortgage-lending subsidiaries in 1995, followed by the failures of the Second Association of Regional Banks and Nissan Life, and then in November 1997 the city bank Hokkaido Takushoku Bank and Yamaichi Securities, one of Japan’s big four securities firms. In 1996 the Cabinet of Prime Minister Ryutaro Hashimoto called for a “financial Big Bang” to revitalize the sector, but the reasons for the successive failures of financial institutions had not yet been clarified, and the root cause was not systemic, but lay in accounting practices that allowed “book-value accounting” and rendered companies’ true financial status opaque. In February 1998, a system for injection of public funds was introduced in order to stabilize the financial system, and the Long-Term Credit Bank of Japan and the Nippon Credit Bank, Limited were liquidated. As financial institutions improved their business practices, they became more reluctant to lend to corporations, and investment was sluggish. For the first time, the economy shrank in real terms for two consecutive years, 1998 and 1999.

In 1998, the successive Cabinets of Keizo Obuchi and Yoshiro Mori implemented economic policies entailing tax cuts and large-scale fiscal stimulus, and also in 1998 the US hedge fund LTCM was liquidated. Meanwhile, the Japanese economy bottomed out in January 1999 as exports recovered at the height of the “tech bubble” phase (which began in 1995) of the long-term, much-vaunted “New Economy” expansion in progress since 1991. In Japan, as well, tech corporations such as Softbank, Hikari Tsushin, and Livedoor saw their stock prices rise, in the growth phase of the 13th economic cycle known as the “IT bubble economy”.

The tech-heavy NASDAQ index peaked in March 2000, and the US entered an economic slowdown (which turned to a recession in March 2001), and falling exports pushed the Japanese economy into a slump after hitting a high in November 2000. The consumer price index had been falling continuously since late 1998, during the previous economic downturn, but it was in the monthly economic report of April 2001 that the government first acknowledged that the country was experiencing “gradual deflation, in the sense of a sustained decline in consumer prices.” For this reason, the collapse of the tech bubble is generally viewed as the starting point of Japan’s long-term deflation (Figure I-2).

**Japan’s Longest Postwar Growth Period**

In January 2002, with exports rising due to a weakening yen and economic recovery in the US and Asia, and inventory adjustment coming to an end, the Japanese economy bottomed out and began a gradual recovery. Although the rate of growth was not high,
the economic expansion phase of the 14th cycle was the longest since World War II ended, at 73 months. It is sometimes called Izanami Boom, Izanami being the female counterpart of the male deity Izanagi, implying that it is comparable to the prolonged “Izanagi boom” of the late 1960s.

The Cabinet of Prime Minister Junichiro Koizumi, who took office in April 2001, avoided fiscal stimulus to the greatest possible extent and aimed for economic growth through regulatory reforms, under the slogan “No growth without structural reform.” For this reason, public capital formation trended downward (Figure I-1). Meanwhile, the Bank of Japan carried on with zero interest rate and quantitative easing policies aimed at reversing deflation, and the word “deflation” disappeared (for the time being) from the monthly economic report in July 2006. At the same time, banks’ outstanding loan balances dwindled even more sharply than during the 1990s when the Basel Accords were implemented (Figure I-1), due to sluggish demand for capital investment funds, corporations’ shift toward direct financing, and reorganization of financial institutions including the advent of megabanks.

In general, economic growth can be attributed to three different factors: an increase of capital, an increase of labor, and TFP (total factors in productivity), such as advances in technology, which cannot be attributed to either of the first two factors. When examined through the lens of this “growth accounting”, we find that the real economic growth rate averaged between 4% and 5% during the 1970s and 1980s but declined to around 1% during the 1990s and around 0.5% during the 2000s, and the factors contributing to this decline are, in order of importance: volume of capital, TFP, and labor input. From this it follows that insufficient capital investment is the greatest single cause of the growth rate drop-off. There is a tendency for labor’s share of income to drop during economic boom times and rise during recessions, and this was the case during the Izanami Boom of the 2000s as well, while corporations’ internal reserves grew as they were hesitant to engage in capital investment. High real interest rates due to deflation were one factor standing in the way of investment, and this was another reason that ending deflation constituted an important policy challenge. As the real cost to companies of workers’ wages rises amid deflation, companies seek to keep personnel costs down by curtailing wage increases and employing non-regular workers (Figure I-4). However, wages are what drive consumption, and if employees’ income does not rise, demand for products is suppressed and deflation cannot be ended, in what is known as a deflationary spiral. This is what lay behind the sluggish growth of the 2000s.

This period was also a turning point for the employment structure of Japan. The total population peaked in 2007 and began shrinking (the population aged 15 and older continued growing until 2011), but the working-age population had already hit a high in 1998, and regular employees as a percentage of the total workforce in 1997, before both began declining. While this helps to alleviate fears of worsening unemployment, it also means that unless the employment rate and labor productivity are raised, the growth rate will remain low over the medium term.

In the summer of 2007 the yen began appreciating again, and with the American economic slowdown resulting from the subprime mortgage crisis at the end of 2007, and rising costs of oil and raw materials, Japan’s economy started gradually weakening. Going into 2008, exports became sluggish, and the longest period of economic growth since World War II drew to a close in February 2008.

September 2008 saw the failure of the major US investment bank Lehman Brothers, and the existing financial instability developed into a global financial crisis. Economies slowed down across the board, and the world was plunged into a recession. Japan was no exception, with the corporate sector seeing business decline drastically as overseas demand plummeted. Exports and imports dropped, particularly the former, and Japan’s balance of trade fell into its first deficit on a monthly basis since the second oil crisis decades earlier. On the employment front, there were major adjustments in number of personnel including the suspension of many temporary workers’ employment, although employment of regular workers was more or less upheld through policy measures such as employment adjustment subsidies to compensate for
suspensions of business. In 2009 the consumer price index once again fell below that of the preceding year, and in the monthly economic report of November 2009, the word “deflation” made a comeback with the acknowledgment that Japan was “experiencing gradual deflation”. The economic growth rate was negative for two consecutive years, 2008 and 2009.

In spring 2009 exports began rising again amid an overseas recovery, particularly in emerging nations, and the balance of trade went back to a surplus. Consumption of durable goods was propelled by policy measures, such as tax breaks and subsidies for environmentally friendly vehicles and the “Eco-point” incentive program, pushing up personal consumption overall. The economy hit bottom in March 2009, and entered the 15th cycle with a gradual recovery from the severe recession.

In the midst of this recovery, the Great East Japan Earthquake struck in March 2011. The quake and tsunami decimated manufacturing sites particularly on the Pacific coast, supply chains were cut off, electricity use was restricted, and a nuclear power plant accident caused widespread damage, spreading the impact of the disaster far beyond the affected region itself. Prices of raw materials rose and liquefied natural gas imports grew due to the suspension of nuclear power plants, plunging the nation back into a pronounced trade deficit. The yen strengthened, staying below 80 yen to the dollar from summer 2011 through the beginning of 2012, and in October 2011 severe floods struck Thailand and affected the facilities of numerous Japanese firms that have a presence there, but the economy did not completely stall during 2011 thanks to rising reconstruction-driven demand from the summer onward.

From July through September 2012, the global economy slowed against the backdrop of the European debt crisis centered in Greece and other EU member states, and Japan saw a drop in exports of electronic components and other items to countries like China and Taiwan that export heavily to Europe. This happened just as the environmentally friendly vehicle subsidy’s positive impact on consumption wore itself out, and Japan’s economy showed signs of weakness. The economy peaked and bottomed out (within the context of the 15th cycle) in April and November 2012 respectively, and after emerging from this short-lived recession, Japan entered the growth phase of the 16th postwar economic cycle.

The Current Status of Japan’s Economy

In November 2012, the yen began rapidly weakening (Figure I-1) against the backdrop of an ongoing US economic recovery, entrenchment of Japan’s trade deficit, and a widening Japan-US interest rate differential. This coincided, in the same month, with the dissolution of the Diet (Japanese parliament) and perception that Shinzo Abe was certain to return to the Prime Minister’s office, which was seen as ensuring ongoing yen depreciation and resurgent stock values particularly among exporters.

If exporters’ improved business performance were simply the result of transference of income from import-driven to export-driven industries, it would bring no economic growth to Japan. The important issue is whether strong performance across a wide range of export-oriented industry exerts a positive ripple effect on the entire economy.

The Abe Cabinet announced an economic and fiscal policy based on “three arrows”: bold fiscal stimulus, flexible monetary policy (monetary easing), and a growth strategy (centered on structural reforms) that stimulates private-sector investment. Among market insiders, this policy was termed “Abenomics”.

The fiscal policy being implemented by the Bank of Japan is aimed at swiftly ending deflation, with the target of a 2% year-on-year rise in the consumer price index. As this policy got underway, the word “deflation” once again disappeared from the monthly economic report in December 2013. The law governing the consumption tax was revised in 2012, mandating a 3% hike, from 5% to 8%, to take effect in April 2014. This kept the consumer price index rising at a rate of over 2% year-on-year from April 2014 through March 2015, although since April 2015 the rate of year-on-year increase has stayed below 1%.

Approximately 3.5 trillion yen from the national coffers has been put into fiscal stimulus, including acceleration of reconstruction and restoration efforts.
in the disaster-hit region, and is estimated to have expanded the GDP by about 0.7% in real terms. For the first three quarters of 2013, the economy grew in real terms year-on-year for three consecutive quarters, followed by a rush to buy goods before the consumption tax hike, which triggered a backlash reflected in a year-on-year decline through the third quarter of 2014. The economy returned to growth in the fourth quarter of 2014.

Private-sector capital investment has been growing year-on-year consistently since the second quarter of 2013, with the exception of the second quarter of 2014 when the consumption tax rate hike took effect (Figure I-1). In this final section, let us examine three aspects of the outlook for Japan’s economic future: wages, the 2020 Tokyo Olympics, and the nation’s finances.

Wages have been trending downward over the long term since the late 1990s, and the key factor driving this is the rising percentage of part-time workers, who earn lower wages (Figure I-4). Wages for the general workforce have been virtually flat, although those for part-time workers are rising. The percentage of firms raising workers’ wages has been fluctuating between about 60% and 80% in line with economic conditions, and in 2014, after rising for three consecutive years, it stood at 83.6%, the highest percentage since the survey began (Figure I-5). Another consumption tax hike, up 2% to 10%, is slated for April 2017, and the factor that will most strongly affect consumer demand is whether or not wages can be raised sufficiently in terms of purchasing power.

A national project on the scale of the Olympics has the power to generate demand and improve consumer mindset, as it did in Japan during the Olympic Boom of the early 1960s, but it is often followed by a reflexive economic slump afterward. Also, reconstruction after the 2011 earthquake and tsunami is still in progress, and there are concerns that too much large-scale construction occurring at the same time could result in shortages of construction materials and human resources. The long-term impact of the Olympics on Japan’s economy remains to be seen.

According to the OECD “Economic Outlook 96”, Japan’s national debt in 2014 was equivalent to 233.8% of GDP, far above Italy’s 149.2% and France’s 117.4% and the highest among developed nations. A high percentage like this does not immediately lead to economic collapse, but government spending is sure to continue increasing as Japan’s society ages further, and it will be necessary to seek out a viable route to fiscal health while closely monitoring interest rate trends. There is no doubt that stable economic growth can greatly aid in this arduous endeavor.

References
Figure I-1  Nominal GDP by Category of Demand, Outstanding Loan Balance of Financial Institutions, Change in the Exchange Rate

1. Nominal GDP (Trillion yen)
   - Nominal GDP
   - Financial institutions’ outstanding loan balance
   - Consumer spending

2. (Trillion yen)
   - Government spending
   - Public-sector capital formation
   - Private-sector capital investment
   - Residential investment

Figure I-2  Consumer Prices and Corporate Goods Prices

Note: Values for nominal GDP and other constituent elements are seasonally adjusted values by quarter. Financial institutions’ outstanding loan balances are three-month averages of monthly values. Exchange rates are three-month averages of monthly values for central markets.
Figure I-3  Total Unemployment Rate and University-graduate Employment Rate

Figure I-4  Total Cash Earnings by Employment Format, and Part-time Workers as Percentage of Workforce

Note: For total cash earnings, average of monthly values for 2010 were multiplied by the 2010 standard index.
Figure I-5  Percentage of Companies That Raised Employees’ Wages