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The Myth of Japan's Failure

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Tokyo

DESPITE some small signs of optimism about the United States economy, unemployment is still high, and the country seems stalled.

Time and again, Americans are told to look to [Japan](#) as a warning of what the country might become if the right path is not followed, although there is intense disagreement about what that path might be. Here, for instance, is how the CNN analyst [David Gergen](#) has described Japan: "It's now a very demoralized country and it has really been set back."

But that presentation of Japan is a myth. By many measures, the Japanese economy has done very well during the so-called lost decades, which started with a stock market crash in January 1990. By some of the most important measures, it has done a lot better than the United States.

Japan has succeeded in delivering an increasingly affluent lifestyle to its people despite the financial crash. In the fullness of time, it is likely that this era will be viewed as an outstanding success story.

How can the reality and the image be so different? And can the United States learn from Japan's experience?

It is true that Japanese housing prices have never returned to the ludicrous highs they briefly touched in the wild final stage of the boom. Neither has the Tokyo stock market.

But the strength of Japan's economy and its people is evident in many ways. There are a number of facts and figures that don't quite square with Japan's image as the laughingstock of the business pages:

- Japan's average [life expectancy](#) at birth grew by 4.2 years — to 83 years from 78.8 years — between 1989 and 2009. This means the Japanese now typically live 4.8 years longer than Americans. The progress, moreover, was achieved in spite of, rather than because of, diet. The Japanese people are eating more Western food than ever. The key driver has been better health care.

- Japan has made remarkable strides in Internet infrastructure. Although as late as the mid-1990s it was ridiculed as lagging, it has now turned the tables. In a recent survey by Akamai Technologies, of the 50 cities in the world with the fastest Internet service, 38 were in Japan, compared to only 3 in the United States.
- Measured from the end of 1989, the yen has risen 87 percent against the U.S. dollar and 94 percent against the British pound. It has even risen against that traditional icon of monetary rectitude, the Swiss franc.
- The **unemployment rate** is 4.2 percent, about half of that in the United States.
- According to [skyscraperpage.com](http://www.skyscraperpage.com), a Web site that tracks major buildings around the world, 81 high-rise buildings taller than 500 feet have been constructed in Tokyo since the “lost decades” began. That compares with 64 in New York, 48 in Chicago, and 7 in Los Angeles.
- Japan’s current account surplus — the widest measure of its trade — totaled \$196 billion in 2010, up more than threefold since 1989. By comparison, America’s current account deficit ballooned to \$471 billion from \$99 billion in that time. Although in the 1990s the conventional wisdom was that as a result of China’s rise Japan would be a major loser and the United States a major winner, it has not turned out that way. Japan has increased its exports to China more than 14-fold since 1989 and Chinese-Japanese bilateral trade remains in broad balance.

As longtime Japan watchers like Ivan P. Hall and Clyde V. Prestowitz Jr. point out, the fallacy of the “lost decades” story is apparent to American visitors the moment they set foot in the country. Typically starting their journeys at such potent symbols of American infrastructural decay as Kennedy or Dulles airports, they land at Japanese airports that have been extensively expanded and modernized in recent years.

William J. Holstein, a prominent Japan watcher since the early 1980s, recently visited the country for the first time in some years. “There’s a dramatic gap between what one reads in the United States and what one sees on the ground in Japan,” he said. “The Japanese are dressed better than Americans. They have the latest cars, including Porsches, Audis, Mercedes-Benzes and all the finest models. I have never seen so many spoiled pets. And the physical infrastructure of the country keeps improving and evolving.”

Why, then, is Japan seen as a loser? On the official **gross domestic product** numbers, the United States has ostensibly outperformed Japan for many years. But even taking America’s official numbers at face value, the difference has been far narrower than people realize. Adjusted to a per-capita basis (which is the proper way to do this) and measured since 1989, America’s G.D.P. grew by an average of just 1.4 percent a year. Japan’s figure meanwhile was even more anemic — just 1 percent — implying that it underperformed the United States by 0.4 percent a year.

A look at the underlying accounting, however, suggests that, far from underperforming, Japan may have outperformed. For a start, in a little noticed change, United States statisticians in the 1980s embarked on an increasingly aggressive use of the so-called hedonic method of adjusting for inflation, an approach that in the view of many experts artificially boosts a nation's apparent growth rate.

On the calculations of John Williams of Shadowstats.com, a Web site that tracks flaws in United States economic data, America's growth in recent decades has been overstated by as much as 2 percentage points a year. If he is even close to the truth, this factor alone may put the United States behind Japan in per-capita performance.

If the Japanese have really been hurting, the most obvious place this would show would be in slow adoption of expensive new high-tech items. Yet the Japanese are consistently among the world's earliest adopters. If anything, it is Americans who have been lagging. In cellphones, for instance, Japan leapfrogged the United States in the space of a few years in the late 1990s and it has stayed ahead ever since, with consumers moving exceptionally rapidly to ever more advanced devices.

Much of the story is qualitative rather than quantitative. An example is Japan's eating-out culture. Tokyo, according to the Michelin Guide, boasts 16 of the world's top-ranked restaurants, versus a mere 10 for the runner-up, Paris. Similarly Japan as a whole beats France in the Michelin ratings. But how do you express this in G.D.P. terms?

Similar problems arise in measuring improvements in the Japanese health care system. And how does one accurately convey the vast improvement in the general environment in Japan in the last two decades?

Luckily there is a yardstick that finesses many of these problems: electricity output, which is mainly a measure of consumer affluence and industrial activity. In the 1990s, while Japan was being widely portrayed as an outright "basket case," its rate of increase in per-capita electricity output was twice that of America, and it continued to outperform into the new century.

Part of what is going on here is Western psychology. Anyone who has followed the story long-term cannot help but notice that many Westerners actively seek to belittle Japan. Thus every policy success is automatically discounted. It is a mind-set that is much in evidence even among Tokyo-based Western diplomats and scholars.

Take, for instance, how Western observers have viewed Japan's demographics. The population is getting older because of a low birthrate, a characteristic Japan shares with many of the world's richest nations. Yet this is presented not only as a critical problem but as a policy failure. It never seems to occur to Western commentators that the Japanese both individually and collectively have chosen their demographic fate — and have good reasons for doing so.

The story begins in the terrible winter of 1945-6, when, newly bereft of their empire, the Japanese nearly starved to death. With overseas expansion no longer an option, Japanese leaders determined as a top priority to cut the birthrate. Thereafter a culture of small families set in that has continued to the present day.

Japan's motivation is clear: food security. With only about one-third as much arable land per capita as China, Japan has long been the world's largest net food importer. While the birth control policy is the primary cause of Japan's aging demographics, the phenomenon also reflects improved health care and an increase of more than 20 years in life expectancy since 1950.

Psychology aside, a major factor in the West's comprehension problem is that virtually everyone in Tokyo benefits from the doom and gloom story. For foreign sales representatives, for instance, it has been the perfect get-out-of-jail card when they don't reach their quotas. For Japanese foundations it is the perfect excuse in politely waving away solicitations from American universities and other needy nonprofits. Ditto for the Ministry of Foreign Affairs in tempering expectations of foreign aid recipients. Even American investment bankers have reasons to emphasize bad news. Most notably they profit from the so-called yen-carry trade, an arcane but powerful investment strategy in which the well informed benefit from periodic bouts of weakness in the Japanese yen.

Economic ideology has also played an unfortunate role. Many economists, particularly right-wing think-tank types, are such staunch advocates of laissez-faire that they reflexively scorn Japan's very different economic system, with its socialist medicine and ubiquitous government regulation. During the stock market bubble of the late 1980s, this mind-set abated but it came back after the crash.

Japanese trade negotiators noticed an almost magical sweetening in the mood in foreign capitals after the stock market crashed in 1990. Although previously there had been much envy of Japan abroad (and serious talk of **protectionist** measures), in the new circumstances American and European trade negotiators switched to feeling sorry for the "fallen giant." Nothing if not fast learners, Japanese trade negotiators have been appealing for sympathy ever since.

The strategy seems to have been particularly effective in Washington. Believing that you shouldn't kick a man when he is down, chivalrous American officials have largely given up pressing for the opening of Japan's markets. Yet the great United States trade complaints of the late 1980s — concerning rice, financial services, cars and car components — were never remedied.

The "fallen giant" story has also even been useful to other East Asian nations, particularly in their trade diplomacy with the United States.

A striking instance of how the story has influenced American perceptions appears in "The Next 100 Years," by the consultant George Friedman. In a chapter headed "China 2020: Paper Tiger,"

Mr. Friedman argues that, just as Japan “failed” in the 1990s, China will soon have its comeuppance. Talk of this sort powerfully fosters complacency and confusion in Washington in the face of a United States-China trade relationship that is already arguably the most destructive in world history and certainly the most unbalanced.

Clearly the question of what has really happened to Japan is of first-order geopolitical importance. In a stunning refutation of American conventional wisdom, Japan has not missed a beat in building an ever more sophisticated industrial base. That this is not more obvious is a tribute in part to the fact that Japanese manufacturers have graduated to making so-called producers’ goods. These typically consist of advanced components or materials, or precision production equipment. They may be invisible to the consumer, yet without them the modern world literally would not exist. This sort of manufacturing, which is both highly capital-intensive and highly know-how-intensive, was virtually monopolized by the United States in the 1950s and 1960s and constituted the essence of American economic leadership.

Japan’s achievement is all the more impressive for the fact that its major competitors — Germany, South Korea, Taiwan and, of course, China — have hardly been standing still. The world has gone through a rapid industrial revolution in the last two decades thanks to the “targeting” of manufacturing by many East Asian nations. Yet Japan’s trade surpluses have risen.

Japan should be held up as a model, not an admonition. If a nation can summon the will to pull together, it can turn even the most unpromising circumstances to advantage. Here Japan’s constant upgrading of its infrastructure is surely an inspiration. It is a strategy that often requires cooperation across a wide political front, but such cooperation has not been beyond the American political system in the past. The Hoover Dam, that iconic project of the Depression, required negotiations among seven states but somehow it was built — and it provided jobs for 16,000 people in the process. Nothing is stopping similar progress now — nothing, except political bickering.

Eamonn Fingleton is an [author](#) who predicted the Japanese financial crash of the 1990s; he is working on a book about the end of the American dream.

This article has been revised to reflect the following correction:

Correction: January 6, 2012

A previous version of this article included an incorrect figure for the increase in life expectancy in Japan. It changed by 4.2 years, not 3.1.