

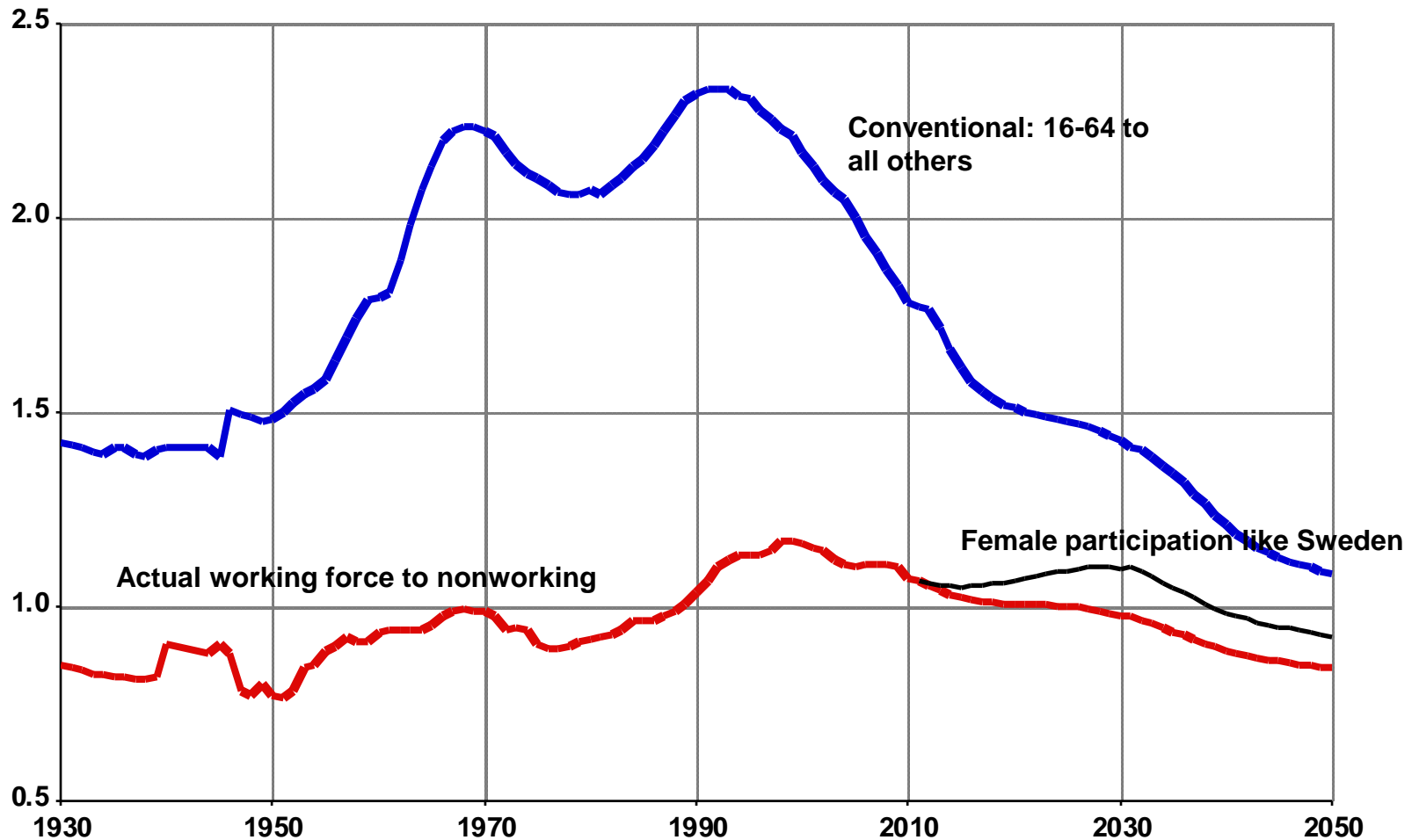
Some Things You Thought You Knew About the Japanese Economy ...

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Common Misperceptions

- **Demographics not as bad as portrayed**
- **Yen not so high**
- **Debt not that large**
- **Growth not so bad, relatively speaking**
- **Japan will be okay**

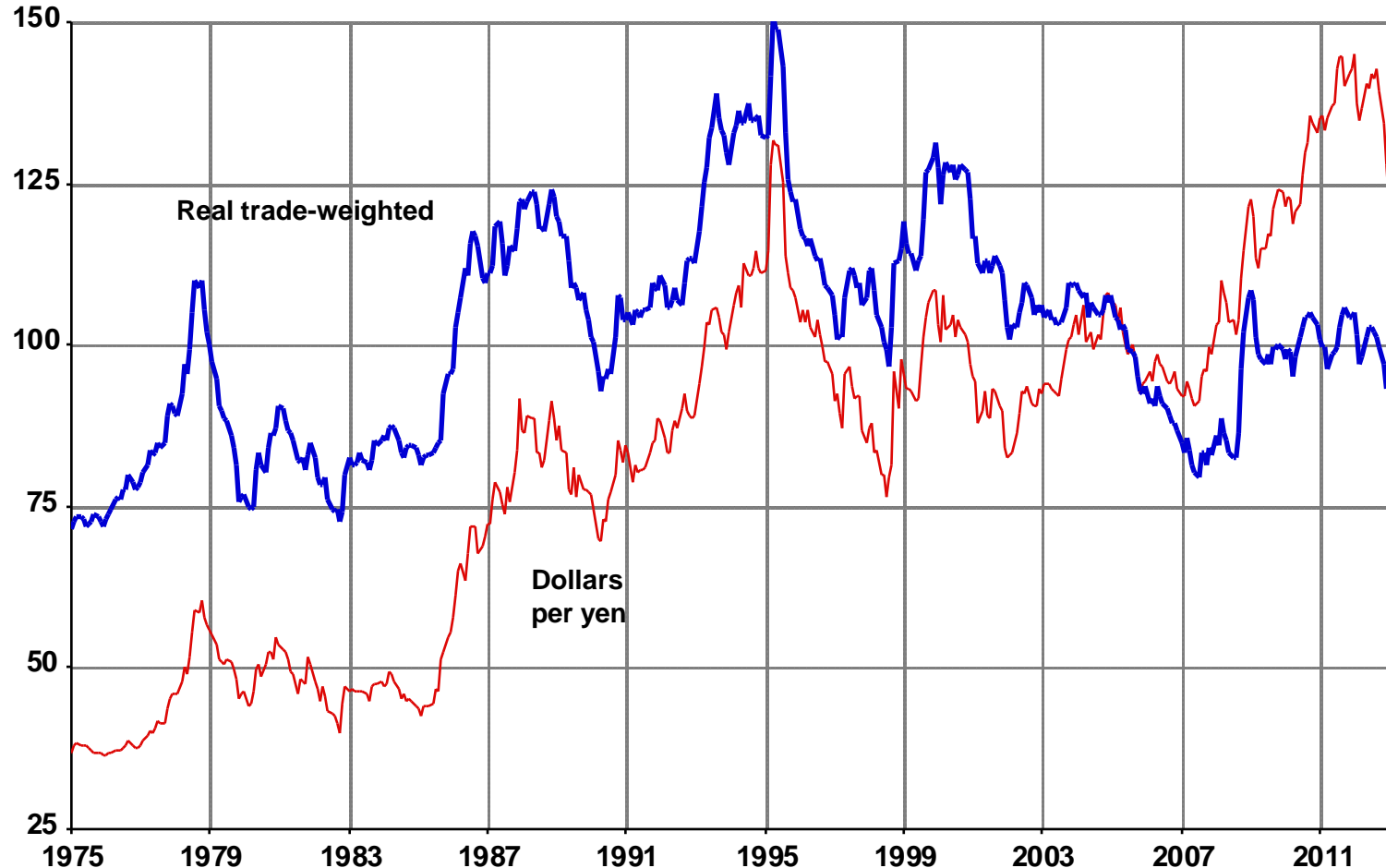
Working to Nonworking Population: Two Ways



Note: Labor force participation projected at 2010 rates.

Alternative female labor force participation assumes Japanese women transition over 20 years to Swedish rate

Price-adjusted Yen near Long-run Average



Note: 2005 = 100; producer prices used to calculate real exchange rates
Source: BOJ

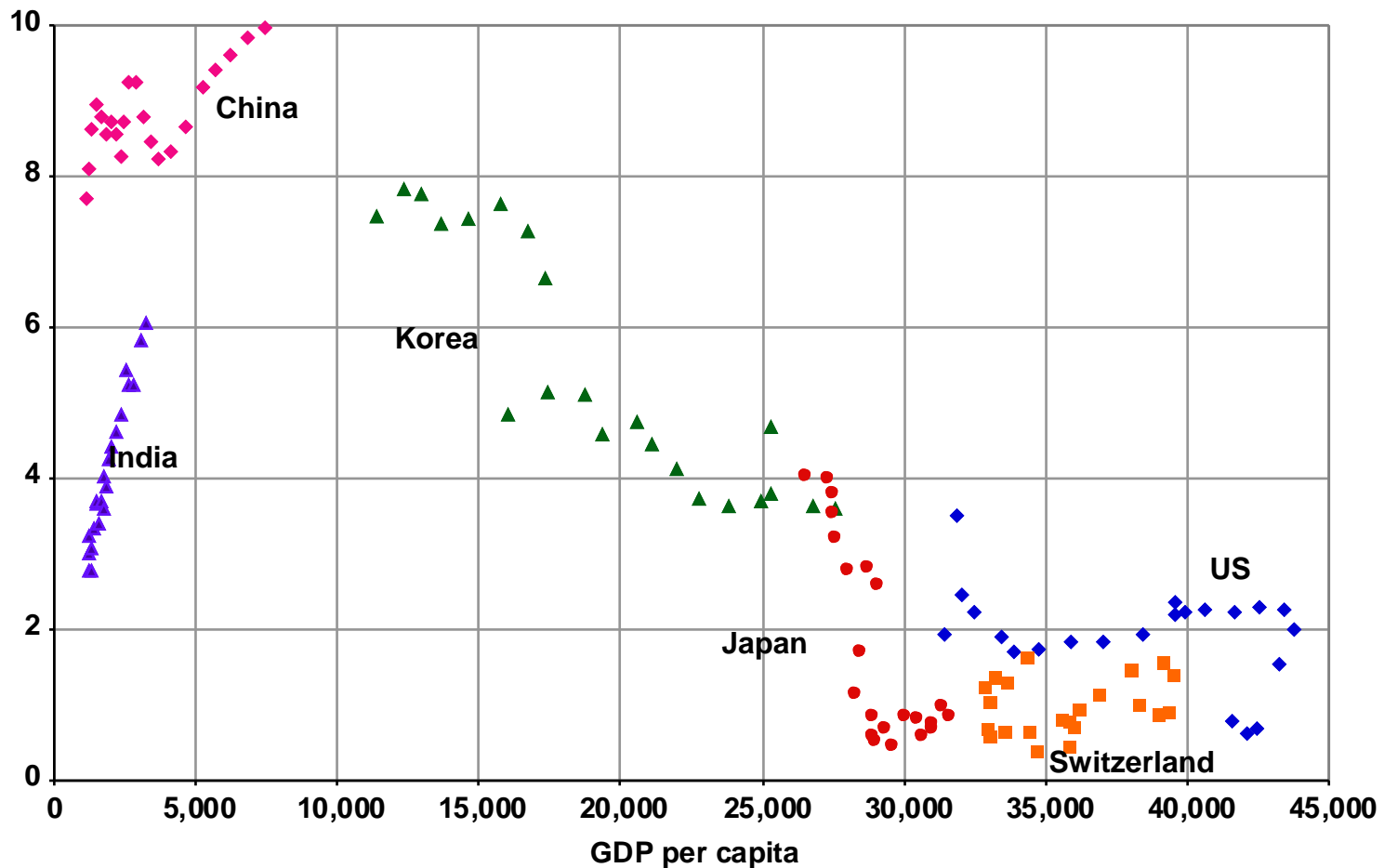
Japanese Government Debt

(% of GDP, March 31, 2012)

| | |
|---|------------|
| Central & local government gross liabilities | 227 |
| Central government gross liabilities | 191 |
| Central government net liabilities | 146 |
| Outstanding central government bonds | 134 |
| Japanese government bonds held privately | 60 |
| JGBs held by foreigners | 9 |

Source: Bank of Japan (Flow of Funds)

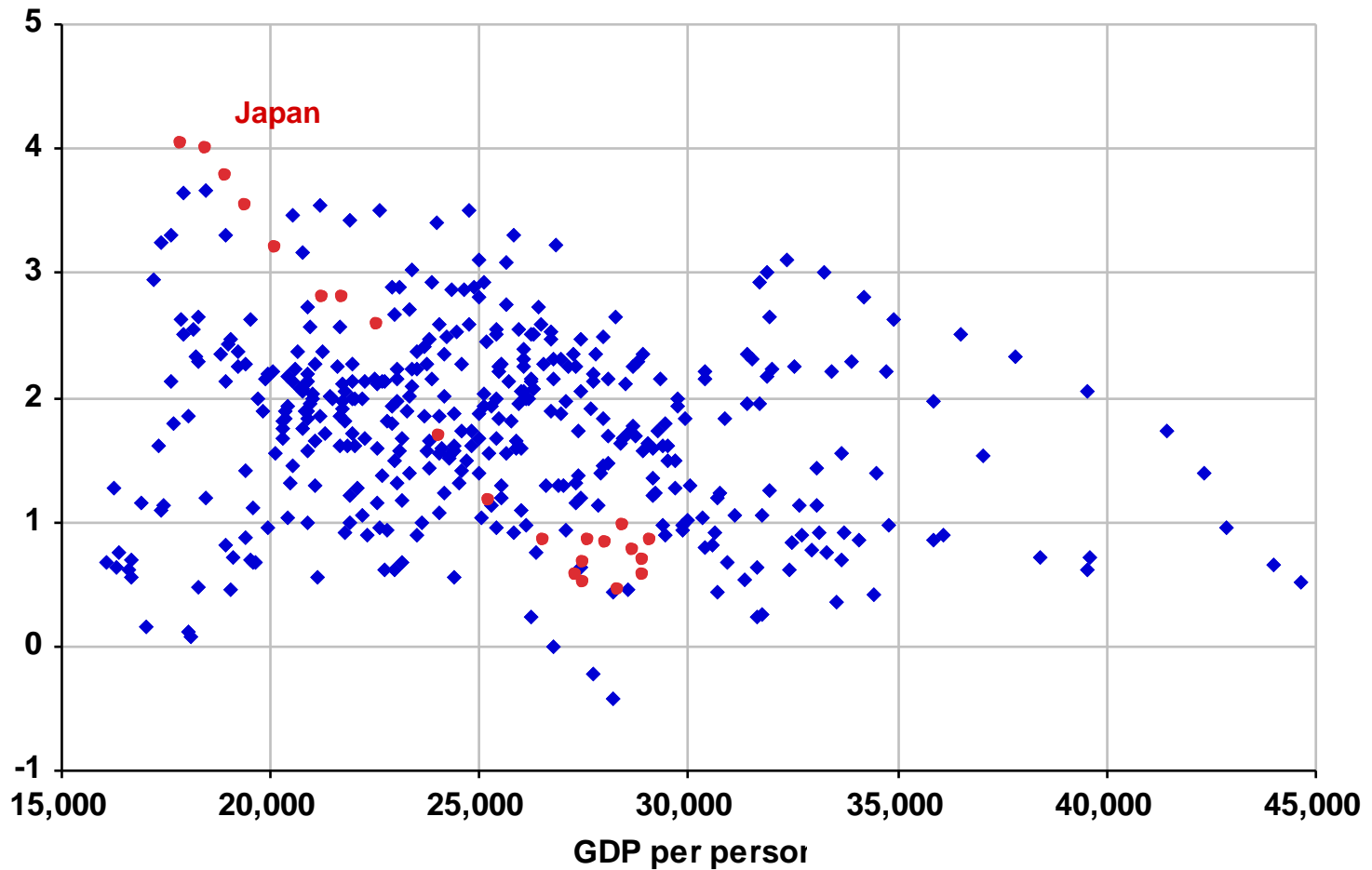
GDP Growth Slows as Countries Become Rich



Source: World Bank

Note: Growth rate averaged over previous 10 years, 1980-2011, 2005 PPP dollars

Japan's Experience Similar to 20 Richest Countries



Source: World Bank

Note: Growth rate averaged over previous 10 years, 1980-2011, 2005 PPP dollars

Conclusions: Japan Will Be Okay

- Japan has institutions, habits that work
- Population decline not as scary as portrayed
 - Productivity gains, better use of women could ease effects
- Slow, but steady, economic change
 - Financial, other deregulation
 - Corporate governance improvements
 - More competition
 - More FDI
- Political tension between helping individuals and larger collectives
- Change with Japanese characteristics
 - Slow, allow time for everyone to adjust
 - May not be fast enough in changing world