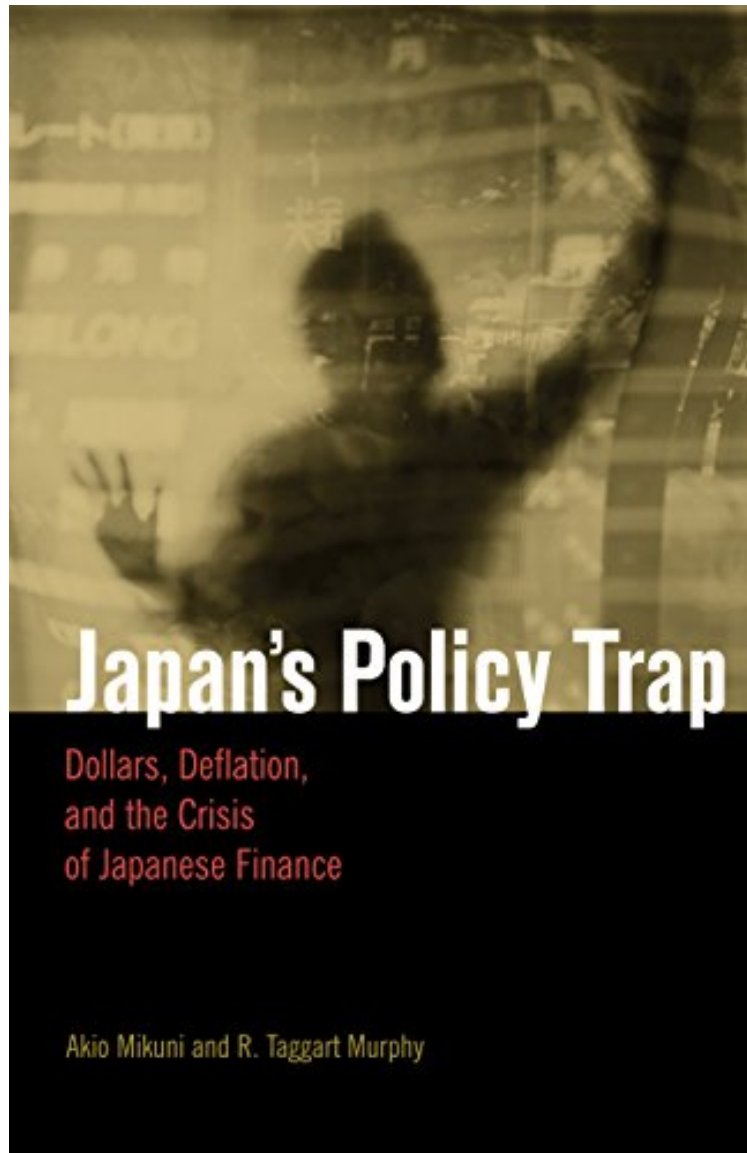


(Download pdf) Japan's Policy Trap: Dollars, Deflation, and the Crisis of Japanese Finance

Japan's Policy Trap: Dollars, Deflation, and the Crisis of Japanese Finance

Akio Mikuni, R. Taggart Murphy
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Akio Mikuni, R. Taggart Murphy : Japan's Policy Trap: Dollars, Deflation, and the Crisis of Japanese Finance before purchasing it in order to gauge whether or not it would be worth my time, and all praised Japan's Policy Trap: Dollars, Deflation, and the Crisis of Japanese Finance:

1 of 1 people found the following review helpful. The thesis is misplaced and the story-telling techniques are poor. By CustomerThe main thesis: 'Japan is trapped by the mercantilist policy which resulted in exporting capital to finance

external surplus without sustainable returns' is inspiring but a bit misplaced. The authors could tell the story in a simpler way: Japan's economy, under the bureaucratic allocation of resources, was obsessed by the export market share and production scale, leading to unsustainable overcapacity and debt burden. Stock and real estate bubbles in the 80s not only failed to raise the economy out of the troubles but triggered the 'inevitable' collapse of the whole system. Chronic surplus and excessive foreign reserves, which functioned to finance the consumer power of the US and maintain an under-valued yen, were the symptoms of overcapacity rather than the direct causes of economic stagnation. In addition, although the argument which attributes deflation to the drainage of Japan's money supply for funding external surplus is interesting, the root causes were more likely to be a scarcity of investment opportunities due to overcapacity and the bursting of asset bubbles. The authors create a gimmick by over-emphasizing the financial symptoms while glossing over the underlying (and perhaps a bit banal) structural reasons of Japan's collapse. The story-telling techniques is poor, especially regarding a smooth chronology. Time and again I have to figure out a timeline to put the events in a chronological order for myself to obtain a clearer picture of how things happened; the authors are unaware that they hinder the readers by occasionally jumping to the 90s while discussing the pre-war problems or suddenly inserting an episode in the 80s when the current narrative is about the 60s. Despite all of the defects, the authors make a very concrete case to demonstrate the financial, banking and monetary weaknesses of Japan's economy. Moreover, an innocent insider can have a taste of Japan's intricate political economy though the authors are prone to fall into conspiracy theories. All in all, if you can spare time and efforts to restructure the valuable but confusing contents of the book, I would recommend it to be your reference to understand Japan's economic woes.

0 of 0 people found the following review helpful. Fantastic book! By Kenneth This book seemingly answers a lot of question I had about the Japanese governmental system. For example, how could a functioning government have 5 different prime ministers in 4 years. Furthermore, this got me thinking about China as well. Anyways, this book is excellent. I enjoyed the detail in which the authors explained the intricate web that exists between the Ministry of Finance (MOF), the Liberal Democratic Party (LDP), the Shogunate past, and the various other bureaucratic organizations. The detail about how the liquidity trap works and the benefits the U.S. reaps from the Japanese policymaker's addition to the American currency is also telling. I look forward to reading Red Capitalism by Carl E. Walter in the future to learn about Chinese monetary policy. I believe China's system will be similar to the Japanese system as portrayed in this great book. I think in the long run both of their respective policies are tenuous at best.

Thanks, Kenneth 14 of 21 people found the following review helpful. Not scholarly enuf; too alarmist; conspiracy minded? By A_2007_reader This book is not up to Brookings Institute standards, perhaps that explains the forward written by the Brookings chief, where he says the books 'conspiracy' theme is interesting, to deflect criticism that the book relies too much on secondary sources. Basically the premise is old news: Japan runs a current account surplus because it refuses to import and only exports, which creates a weaker than normal yen. The dollar surplus then has to be either invested overseas (hence the Japanese overpay for US investments), or plowed into assets by JP banks to avoid the yen from being strengthened. But that this is part of a 'conspiracy' is not really fleshed out. The book relies too much on secondary sources. And it is not clear to me that the currency imbalance is the root of Japan's ills (this is the central premise of the book). Note that Japan import/exports are only 10% of the GNP, (not unlike the 15% in the US), and thus the lack of demand in JP from the remaining 90% of the GNP is perhaps the real cause of the 10 year recession there. Also other Asian countries do the same thing as JP (namely, keep their currency weaker than it should; ration credit; restrict labor mobility and labor wage rates); how do their economies escape the JP trap of recession? Can it be that other reasons are at fault for JP's demise, such as JP is getting older? These issues are not discussed. Basically the book is a 20 page white paper made into a several hundred page book, and the tone is too 'alarmist'. The most interesting points are made when discussing politics, and how the Ministry of Trade decides who is going to live or die vis-a-vis the 'walking zombie' companies. Of course the same things happened in the US (credit rationing until the 1970s; bank failures in the late 1980s, where the government decided which banks were to be taken over; and a merchantist philosophy of keeping the dollar strong, which keeps inflation low in the US but results in the mirror opposite but also dangerous problem as in Japan--current account deficits, or living beyond your means).

Until quite recently, the Japanese inspired a kind of puzzled awe. They had pulled themselves together from the ruin of war, built at breakneck speed a formidable array of export champions, and emerged as the world's number-two economy and largest net creditor nation. And they did it by flouting every rule of economic orthodoxy. But today only the puzzlement remains—; at Japan's inability to arrest its economic decline, at its festering banking crisis, and at the dithering of its policymakers. Why can't the Japanese government find the political will to fix the country's problems? Japan's Policy Trap offers a provocative new analysis of the country's protracted economic stagnation. Japanese insider Akio Mikuni and long-term Japan resident R. Taggart Murphy contend that the country has landed in a policy trap that defies easy solution. The authors, who have together spent decades at the heart of Japanese finance, expose the deep-rooted political arrangements that have distorted Japan's monetary policy in a deflationary direction. They link Japan's economic difficulties to the Achilles' heel of the U.S. economy: the U.S. trade and current accounts deficits. For the last twenty years, Japan's dollar-denominated trade surplus has outstripped official reserves and

currency in circulation. These huge accumulated surpluses have long exercised a growing and perverse influence on monetary policy, forcing Japan's authorities to support a build-up of deflationary dollars. Mikuni and Murphy trace the origins of Japan's policy trap far back into history, in the measures taken by Japan's officials to preserve their economic independence in what they saw as a hostile world. Mobilizing every resource to accumulate precious dollars, the authorities eventually found themselves coping with a hoard they could neither use nor exchange. To counteract the deflationary impact, Japanese authorities resorted to the creation of yen liabilities unrelated to production via the largest financial bubble in history. The bursting of that bubble was followed by massive public works spending that has resulted in an explosion in public sector debt. Japan's Policy Trap points to the likelihood that Japan will run out of ways to support its vast pile of dollar claims. Should the day come when those claims can no longer be supported, the world could see a horrific deflationary spiral in Japan, a crash in the global value of the dollar, or both. The effects would reach far beyond Japan's borders. Mikuni and Murphy suggest that a reduction in Japan's surplus must be accompanied by a reduction in deficits somewhere else—most obviously through far-reaching shifts in the American economy.