The Origin of Shrinking Economy in Contemporary Japan

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논문요약

본 연구는 '1980년대 후반 일본의 버블경제와 그 초기 수십 년 동안의 발전전략의 관계를 살펴본 후, '거품경제'의 역사적 원인을 분석하고자 한다. 제2차 세계 대전 이후 일본은 1980년대 후반 이전에 성공적인 경제 발전을 이루었다. 기존 연구에서 금융부의 강력한 개입과 은행을 기반으로 한 기업집단 간 집중적인 협력이 일본 경제성장의 일차적 요소라고 종종 여겨져 왔다. 하지만, 장기적인 관점에서 살펴보면 이러한 요인은 향후 일본경제의 구조적 문제로 전환된다. 일본 경제는 1980년대 후반 이후 '거품경제'에 시달리기 시작했다. '거품경제'의 원인과 그 결과에 대해 여러 가지 설명이 있었다. 본 연구는 1960~80년 개발정책의 성과가 1980년대 후반 이후 일본의 경제전환에 부정적 영향을 미쳤다는 주장과 함께 현재 일본 정부의 경제회복 노력을 살펴본다.

주제어 : 거품경제, 발전전략, 간섭, 집중적인 협력, 금융개혁

Ⅰ. Introduction

Japan pushed for a massive stimulus package to get out of the "lost 20 years of recession," but ended up taking over national debt, which is more than 200 percent of its GDP. For this reason, some in Japan point out that the economy should be restored from the shock of a new coronavirus infection (Corona 19) through structural reform without relying on artificial economic stimulus measures.

Japan's national debt rose sharply as Prime Minister Shinzo Abe pushed for "Abenomics. "Abe, who regained power in late 2012, sought to revive the economy through massive stimulus measures and monetary easing. However, the debt gradually increased due to excessive release of money. According to the International Monetary Fund (IMF), Japan's national debt ratio stood at 237.1 percent as of 2018. (Kim 2020)

Since the World War Ⅱ in terms of economy, Japan had transferred from a poor defeated state to strong competition of the United States (US): the strongest economic state until the late 1980s. It is true that Japan was able to expend all energy for economic development due to the US's military support. Moreover, the US offered its market to Japan for a strategic purpose. (Mcgrew and Brook. 2002) Nevertheless, the rapid economic growth of Japan was not exclusive, but also provided a model to other Asian developing countries. The economic performance of Japan was much more superior to Western developed countries in the period. (table 1) In particular, the electronic and mobile industry became a strong competitor of other developed countries in the world market.

Table 1. GDP Growth Rates (average annual trend rates of changes)

	1950-73	1973-90	1990-2000	1950-2000
Japan	88.8	3.8	1.3	5.7
United States	3.6	2.9	3.4	3.2
Western Europe	4.8	2.2	2.0	3.3

Source: Maddison (1995); OECD, National Accounts of OECD Countries and Economic Outlook (various issues)

However, the miracle of Japan began to face a severe economic obstacle, 'the bubble economy' in the late 1980s. The Japanese stock market fell sharply, and almost half of its value disappeared. In addition, during the 1990s, Japan had less than 1 percent of real growth on average (Kashyap and Rose 2001). With the economic tragedy, Japan has failed to follow new industrial trends in world market (Drucker 1993).

For example, the US has recovered its reputation with the faster invention on information technology while Japan has slowed down its economy in 1990s. Furthermore, despite the substantial growth of export surplus with the US, the quality of the surplus was weakening in 1990s due to an unbalanced industrial structure (Drucker 1993). why did the economic miracle move to tragedy in such short term? Was it inevitable?, was it from an inherent internal limitation or external impact? There have been various analyses for the implausible economic incident in Japan.

This study makes an effort to explore the origin of contemporary Japan's shrinking economy, which is connection between Japanese developmental strategies in earlier decades and the ‘bubble economy in the late 1980s. This argues that the bubble economy resulted from fundamental limitations, including financial links between firms, corruption, and weakness of stock market. Along with it demonstrates the government's attempt to recover its economic growth, in particular, focus on financial reform.

The study is organized in the following order. First of all, it explores the characteristic of developmental strategies in Japan. This section includes the general economic strategies, the long dominance of the Liberal Democratic Party (LDP), the authority of the Ministry of Finance (MOF), and intensive competition between firms. Secondly, it looks at the economic transition in the global economy and its impact on Japan in the 1980s. This section shows the change of world economy and the occurrence of the bubble economy. Thirdly, it shows the limitation of Japanese economy in economic transition. This section deals with fundamental obstacles came from developmental strategies. Fourthly, this study demonstrates the effort of government in overcoming the outcome of the bubble economy during the last decade. Lastly, it concludes by summarizing the main argument.

The following section demonstrates the key factors on developmental strategies in Japan since the World War Ⅱ. This explanation is necessary to analyse the cause of the bubble economy later.

Ⅱ. Theoretical analysis: the nature of Japan's developmental Strategies

The Japanese political economic system has been characterized as a distinctive model in world economy. The elements that have generated the nature of Japanese model are 'the key role of large corporations in the organization of the economy and society, subordination of the individual to the group, primacy of the producer over the consumer, and the close cooperation among government, business, and labour' (Gilpin 2001). The most important point is that the state must dominate a primary role to develop the nation economy and to compete with Western developed countries. Therefore, Japanese political economy has primarily labelled as "developmental state capitalism." (Gilpin 2001).

To analyse the Japanese developmental state capitalism, Johnson (1982) puts forward the argument that the Japan's Ministry of Trade and Investment (MITI) successfully organized post-war economic and technological success. He maintains that MITI and bureaucracies applied distinctive policies such as import protection, government subsidies, and low-cost financing in encouraging rapid industrialization and development of the high-technology industry. In addition, one of most important elements for the successful industry in Japan was to guide private firms to invest in such high technology by MITI and bureaucracies. Therefore, their intervention policy has been the primary origin of Japan's export success (John 1982).

On the other hand, it has been argued that market-oriented policy and the Japanese economic performance are main elements for Japanese economic success in the post war period (Patrick 1976; Denison and Chung 1976). In this argument, the high rate of saving, superior education system and management are major elements for the successful economic performance in Japan. Moreover, Grossman (1990) indicates that Japan has competitive advantages in capital management and labour supply rather than a lack of resources, and the advantages are the basis of manufacturing and industrial innovation. Okimoto (1989) suggests a certain case that shows the failure of MITI policies. For example, MITI did not allowed Honda, one of most competitive automobile companies now, to become an automobile company due to its belief. This is Japan could not afford to support another automobile company.

However, there has been little doubt that the support and protection of private firms by government in industrial sector has been key policy in Japan. It has not concluded the impact of government intervention in Japanese economic success. In addition, there is no obvious experience to conclude the debate (Komiya 1975). Along with it, Komiya (1986) points out that Japan's industrial policy and its aim have distorted significantly in the procedure of the post war period. Therefore, despite certain mistakes MITI and other Japanese bureaucracies provided important supportive policies to Japanese firms in generating competitiveness to catch up Western high- technology industries. The encouragement in the formation of *Keiretsu* is one of most significant example to support the positive contribution of

Japanese government (Gilpin 2002).

The *Keiretsu* is an exclusively effective part to explain corporations between major firms in Japan in the post war period. According to Kester (1991), the Keiretsu efficiently organized economic performance in enabling Japanese industry a strong competitor in world market. For instance, the exchange of information between Keiretsu members was able to reduce uncertainties and contribute to innovation of economic activities. In addition, the Keiretsu mechanism has brought about positive interaction between large firms and small firms (Dore 1986). The large firms contributed financial and other advantages, and the small firms simultaneously offered flexibility and innovation within the Keiretsu. (Dore, 1986) Moreover, the cooperative mechanism, when a member firm face obstacles, makes other members become assistant of the member in risk. Nevertheless, the mechanism just applied to domestic firms, not to foreign firms. As a result, the Keiretsu could obtain both corporate expansion of Japanese and an important barrier to non-Japanese firms.

The Keiretsu offered to its members stable networks based on banks. Among the Keiretsu, The Mitsui and Mitsubishi keiretsu, with having an own bank at their centre, are originated in the Zaibatsu that was a cartel, such as concentration of industrial and commercial capital in the pre war period (Lapavists 1997). In addition, other Keiretsu, such as Dai-Ichi Kangyo and Sanwa Keiretsu, has been generated by banks. Despite different origins there is a common factor, the important position of banks, which offered cross- holding between the members of the Keiretsu at the centre. Alternatively, in the case of Toyota and Hitachi, they had no such links with a single bank, but also hold considerable proportion of the shares of firms in the Keiretsu. In other words, the Keiretsu achieved long-term relationship between companies through cross holding policy based on banks.

The political stability in Japan can be considered as an important fact of economic development in the post war period. To explain a political stability of Japan, firstly, the long-term dominance of the LDP could be said. The LDP has contributed to dominate bureaucratic promotions, and employ increasingly intelligent bureaucrats as party political advises. In addition, the LDP, with policy issues, generated close relationship between politicians and party (Calder 1993). On the other hand, the Japanese power structure with large informal relation generates abundant corruption with politicians. As the obtaining of political position means necessity of massive finance in Japan, the authority to decide bureaucracy was abused by some politician who intended to make money on their political status. Moreover, companies owner involved with politician in order to expand or protect their business (Karel 1993).

Secondly, the life-employment policy has contributed to the political stability of Japan. If the Keiretsu is for cooperation between capital institutions, the lifetime-employment policy can be represented as cornerstone of the stable relationship between labour and firms. The system of lifetime-employment has been opposed to the western, particularly American style that regards efficiency to make profits as a goal. Nevertheless, the lifetime-employment system has criticized since ‘the bubble economy’.

Japan has adopted the development of new sectors of financial support in spite of directing credit toward individual firms within them (Calder 1993). The Bank of Japan (BOJ) and the MOF has strongly influenced supervision and regulation of the Japanese economic system (Lapavitsas 1997). However, the BOJ, in fact, was just the main device of monetary policy, even though it was and is officially an independent central bank to manage government finance and perform monetary policy. In contrast, the MOF practically takes account of the supervision of the financial system. According to Lapavitsas (1997), the MOF makes decisions to establish bank branches, the scope of business activities, and the conduct of business. Furthermore, the MOF has an authority to decide the relative size of banks, banking licenses, and the right to entry into industry. In other words, the MOF had one of most powerful authorities in Japan’s economic system since WWⅡ. To sum up, Japan had achieved economic success based on development strategies, including political stability, stable monetary policy of the MOF, and cooperative industrial institution with banks. However, the advantages of Japan on developmental strategies faced international economic turmoil from the 1970s.

In addition, numerous studies have attempted to explain the origin of economic downturn in contemporary Japan. Akram (2019) points out that The Japanese economy has been demonstrating signs of a moderate recovery after more than two decades of stagnation. He provides comprehensive reasons of stagnation, which resulted in low inflation or outright deflation, subdued long-term interest rates, increased government debt and chronic fiscal deficits, and the decline in its share of global exports (Akram 2019).

Chiavacci and Hmmerich (2016) is to shows a comprehesive map of social inequality in contemporary Japan by explicitly demonstrating five dimensions of social inequality. In particular, they emphazised fundamental structural changes leading to turning point in Japan's development. Vandenbrouke(2018) highlights the significance of persistent slow growth and low inflation to explain 'lost decade'.

Juanbo (2019) focues on the outcome of early 1990s' bubble in stock markets and real estate makes Japan suffer from shrinking economy and recession. This study specifically suggestes 'multiple that bank insolvency risk and the stagnant production in corporate sector, the reduction of consumption and demand, the diminishing industrial competitiveness and the failure of industrial transformation, and the impact of demographic structure.' Yoshino and Taghizadeh-Hesary (2016) points out that structural problems is more fundamental than a temporary downturn depite of that Nobel laureate Paul Krugman has insisted that Japan's lost decade is exampled by a liquidity trap.

Previous studeis intend to apply comprehensive and micro -economic approach for offering explanation of turning point in contemporary Japan. However, this study attempt to highlight the structural origin of bubble economy in the transition process of economic development in contemporary Japan. The following section explains the cause of the bubble economy. To clarify the origin of shirinking economy in contemporary Japan, it includes global economic transition and its effect on the Japanese economy. In addition, it demonstrates the process of the bubble economy in the late 1980s. This section is important for clarifying the external facts in formulating the bubble economy.

Ⅲ. The emergence of the 'bubble economy' in Japan

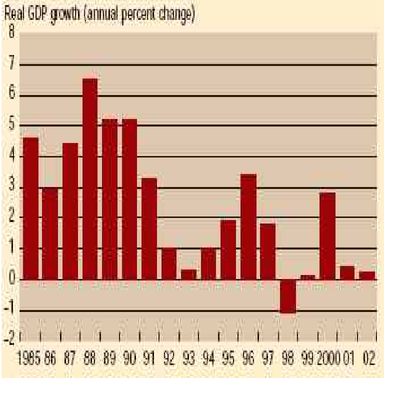
Since the collapse of the Bretton Woods system (BWS) unpredictability in exchange rates emerged and the growth of foreign exchange market. With the capital liberalization of the US in 1974, most developed countries abandoned capital control between 1980 and 1990s. In terms of removal of capital movement, the main motivation was strong competition to attract international financial business or integrate into world financial market (Lairson and Skidmore 2003). Japan in 1980 became one of the developed countries that followed the advanced capital liberalization of the US and Britain. The removal of capital controls in Japan was originally in US pressure and lobbying by foreign multinationals and Japanese business (Lairson and Skidmore 2003). With the collapse of the BWS, the significant increase of oil price in 1973-1974 and in 1979-1980 provided enormous funds to oil producers. As a result, large western banks could gain new massive funds from those oil producing states that have a preference in keeping a balance of dollars and other convertible currencies

(Lairson and Skidmore 2003). Accordingly, western banks needed targets to invest surplus funds, and Japan was a certain attractive market for international investors due to high economic growth.

After the end of the foreign exchange restriction in Japan, the vast current surplus from the world financial market flowed to Japan, the international investment led Japanese government release limited financial liberalization (Lairson and Skidmore 2003). Foreign banks in Japan were not allowed to provide Japanese corporations with loan, based on an exclusive deposit base and substantial Yen-denomination (Lapavitsas 1997). However, The Yen-Dollar Accord in 1984 was allowed to expand the scope of foreign institutions. Moreover, the Accord contributed to liberalize Japanese domestic finance. As a result, the foreign institutions could increase investment in Japan.

Figure 1. Stock prices change

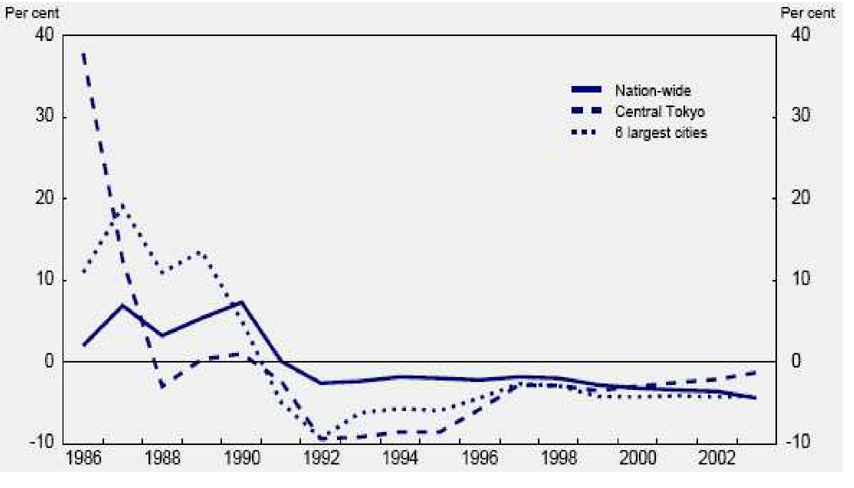
Figure 2. Real GDP growth change



Sources: Global Insight Inc, Nomura Database, Ministry of Finance, and IMF staff estimates

With financial liberalization, the Accord Plaza agreement in 1985 resulted in the transformation of capital from the industrial field to the financial field (Lapavitsas 1997). Under the Accord Plaza, the Japanese currency was forced to devaluate, and macroeconomic economic policy, including fiscal and monetary policy and became more flexible for speculators in Japan. Furthermore, after the fall of the New York Stock Exchange in 1987, interest rates experienced the lowest rate since WWⅡ, and the Japanese government relaxed on monetary policy. Consequently, financial liberalization with more relaxed monetary policy brought about a massive speculative explosion. Japanese banks, due to competitive pressure, implemented lending funds to investors of real estate and the Stock Exchange. Moreover, land price rose rapidly because Japanese banks require land as a collateral for loan (Lapavitsas 1997).

Figure 3. Land price



Source: Japan Real Estimate Institute

Since the rise of interest rate the bubble began to burst from 1989. To adjust the asset price inflation which had been initiated in the mid-1980s, the BOJ began to raise interest rates in mid 1989 (Bayoumi 2001). The rise of interest immediately resulted in the decline of the Stock Exchange market, the Nikkei Dow index plunged to less than one half its 1989 value by 1992. Despite the significant intervention of the MOF the low value of the Nikkei Dow index was substantial until 1996. In addition, the explosion of bubble economy exclusively influenced the Tokyo Stock Exchange, and land price sharply declined (figure 3). In fact, figure 1 shows that the stock price fell from almost 3000 in 1989 to approximately 1400 in 1992. Indeed, as figure 2 demonstrates, the bubble economy explosion undermined the high growth of Japanese economy in the post war period since WW Ⅱ.

The next section mainly demonstrates how developmental strategies connected to the 'bubble economy'. In particular, it focuses on the weakness of the financial sector and the implication of the Keiretsu since the bubble economy.

There have been diverse arguments about the Japanese bubble economic crisis. Some scholars, such as Itoh, Burkett, and Hart-Landberg, primarily emphasize the fundamental cause of economic crisis in Japanese capitalism (Itoh 1990; Burkett and Har-Landsberg 2003). In this perspective, 'Japan is indeed suffering from a crisis of capitalist maturity involving a worsening trade-off between economic stagnation and the exploitative, wasteful, and destructive utilization of productive capacity.' (Burkett and Har-Landsberg 2003). For the argument, they indicate that Sachs's exchange-rate-based framework would be best to explain the bubble economic crisis rather than financial deregulation after 1985 and financial over-regulation before 1985 (Burkett and Har-Landsberg 2003). In other words, they focus not on internal factors relative to the developmental strategies, but the essential origin of Japanese capitalism in the long term.

However, it has been a core perspective that the primary reason of the bubble economic crisis was precisely connected to developmental strategies. First of all, political corruption has reinforced the bubble economy. The LDP, as mentioned earlier, contributed to political stability in the high growth period. Nevertheless, their long dominance has brought about serious corruptions that deteriorate the economy. For example, during the period of the bubble economy, and the political corruption connected with real estate speculators (Lapavitsas 1997). In addition, the LDP has pursued the traditional economic policy rather than economic reform due to their interests. Accordingly, their autonomy based on the long-term dominance, as mentioned later, has been one of the most significant problems with economic reform.

Secondly, the cross holding by banks between companies became one of the main origins of the bubble economic crisis. In the post war period, the large holding between Keiretsu members provided to Japanese economy with stable regulations. This was key factor that makes high growth possible in Japanese economy. However, after the occurrence of the bubble economy, the cross holding system has been an obstacle in adjusting uncompetitive firms. As many banks have had long- term relations between other corporations, it is difficult to force bankrupt firms that have had bad debt problems. At the same time, ‘ More specially, the dominance of large, interconnected firms, together with underdeveloped (and over-protected) financial market, resulted in poor assess to finance form small and medium-size firms, and little venture capital for risk-takers.’ (OECD 1996).

Thirdly, the strong intervention of the MOF has undermined the transparency of institutions with economic transition. The MOF provided to Japanese economy with financial regulation so that firms could expand their scope before the bubble economy. However, the MOF delayed preventing expansion of bad debts after the beginning of the bubble economy as it systemically protected banks from revealing their problems relative to loans. Furthermore, the MOF offered to banks an unofficial promise that maintains the position of banks with bad debts. This created a lack of transparency in the Japanese economy. As a result, the bad debt problems deteriorated, and Japan was unable to catch up to solve the bad debt efficiently.

Fourthly, the lifetime-employment system has been an obstacle with the bubble economic crisis. The lifetime -employment system provided to labour with a social safe net so that Japanese society pursued further stable society. However, with the ignition of the bubble economy, the lifetime-employment has been criticized by those who wanted the Anglo-Saxon's reform way. Anglo-Saxon's capitalism pursues making a profit from firms or banks rather than concerning of social stability.

(Burkett and Har-Landsberg, 2003) Accordingly, if there are weak firms or banks in the market, Anglo-Saxon's capitalism cut off labours. This way, in the cases of transition in the US and Britain in the early 1980s, could increase competitiveness of the market. In fact, figure 4 demonstrates that the rate of unemployment until 1994 is less than the level in 1987. In other words, Japan delayed structural adjustment in order to avoid the emergence of mass unemployment. This has been an obstacle in overcoming the economic crisis.

To sum up, the developmental strategies including the intervention of government, interlocking shareholding, and the long dominance of the LDP have depressingly influenced the economic transition in Japan.

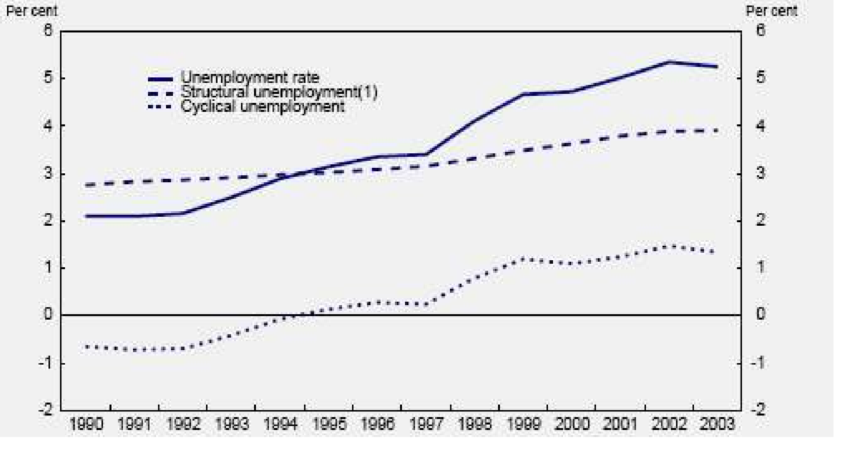
The Japanese government made several attempts to overcome the bubble economy in diverse sectors. However, the next section focuses of financial reform.

Ⅳ. The responds of the government to 'the bubble economy'

There have been diverse ways to solve the bubble economic crisis in Japan. Among them, many Western financial analysts argued that Japanese companies needed 'corporate restructuring'. For example, Alexander Kinmont of Morgan Stanly, strongly pointed out, 'If Japanese firms conduct drastic restructuring as they have announced so far, the Nikkei index will rise to as high as 18,000 points toward the end of this year. Otherwise, it will waver in the 15.000s' (Shimizu 1999).

However, the Japanese government did not seem to realize the seriousness of the impact of the bubble economy in the early 1990s. After the emergence of the bubble economy, the Japanese government, especially the MOF, sought to prevent weak banks from bankruptcy. For example, the enormous amount of Japan government purchase of stocks and bonds reached one -third of all purchases on the Tokyo stock Exchange in 1993 (Drucker 1993). Moreover, the Japanese central government has maintained financial support to troubled jurisdictions, and local governments have been stimulated to support them by the central government. Consequently, the budget of both governments has diminished as figure 5,6 shows (OECD 2005).

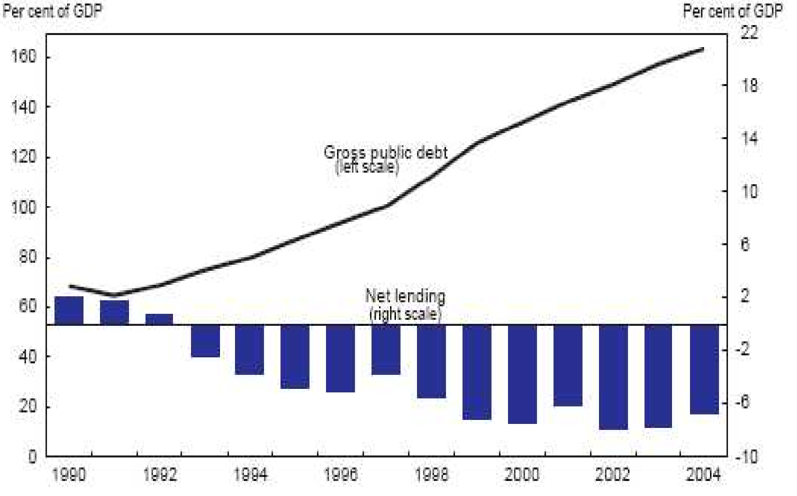
Figure 4. Unemployment in Japan



Note: OECD estimate of the unemployment rate consistent with a non-accelerating rate of inflation (NAIRU)

Source: OECD Economic Outlook

Figure 5. Fiscal indicators for general government,

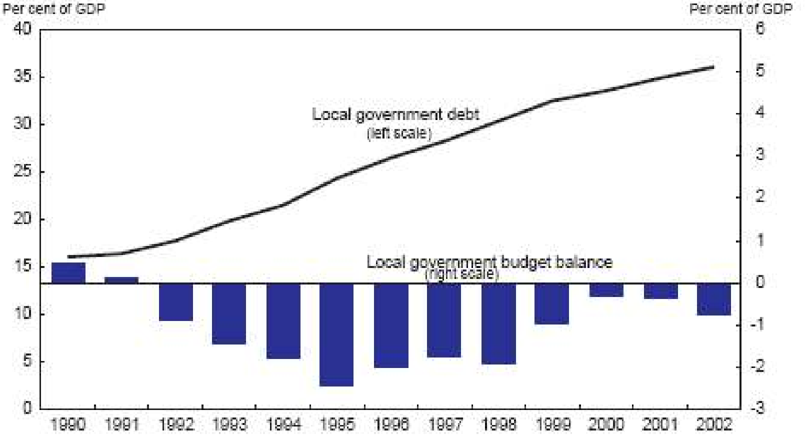


Source: Cabinet office (OECD, 2005)

Furukawa (1998) indicates that the rate of the cross holdings of outstanding stocks increased from a pre-bubble high of 6. 3% in 1985 to 9.8% in March 1997 and 13.4% in March 1998. In addition, the Japanese official line may have the belief that economy would be restored within a short term. Unfortunately, the belief was The occurrence of the Kobe earthquake in 1995 brought about one of the worst effects in the financial system (Lapavitsas 1997). The terrible disaster required financial expenditures to reconstruct destroyed cities. completely wrong, which exacerbate the economic tragedy.

This, as figure 1 shown earlier, resulted in the decline of the Stock Exchange. At the same time, international credit rating organizations put Japanese credit of financial institutions down to lower level than previous years due to the continuousness of bad debt problem and the doubtful stability of the Stock Exchange. Consequently, the cost of short-term loans by the banks considerably increased.

Figure 6. Fiscal of local government, percent of GDP



Source: Cabinet office (OECD, 2005)

In the following year, the Japanese Prime Minister Hashimoto generated a plan, including six major reforms. (Honda, 2003) The financial Big Bang was one of them. The origin of reform on financial institution started from 1980s, which was already mentioned early in this section.

The Big Bang reform includes liberalization of banking, insurance, and securities operation (Maswood and Sadahiro 2003). It has been evaluated as a significant reform, but the outcome of the Big Bang reform has been much less than what might have been expected (Maswood and Sadahiro 2003). In addition, although Obuchi's financial sector reforms initially provided to Japanese banks with recapitalizing and restructuring, it also could not offer a complete solution for the highly growing levels of non-performing loans.

Maswood and Sadahiro (2003) point out, despite the promotion of reform, the Japanese government depended on public works programs to overcome stagnation. They maintain that the public works programs offered profits not to restoration of Japanese economy, but to the construction industry linked to the ruling LDP. As the LDP politician considered rural area as more important one than urban area due to election, they sought to protect rural benefits through public works programs rather than economic reform (Maswood and Sadahiro 2003). As a result, the severe fiscal imbalance has deteriorated due to wasteful expenses on the public works programs. As Figure 6 demonstrates the fiscal imbalance of local government, Japan's fiscal balance is quite serious. In 2002, Moody's, one of the most popular international credit ranking organizations, evaluated Japan's credit rating as low as the level of Poland and South Africa (Economist 2002).

Koizumi's reform has incompletely reached a certain step to solve the Japanese economic crisis. He has denationalised postal savings Bank, which is the world's largest financial institution, and its property accounts for 80 percent of Japanese GDP. The privatization would provide to the massive financial institution with a better allocation of resources and reinforce Japan's economic potential (OECD 2005). On the other hand, the largest scale, including 25 000 branches and 400 000 employees of employment would become a noticeable burden in keeping the privatization until 2017. The Prime Ministry generated relatively progressive reform proposals, '*Council for Regulatory Reform* which form the basis of the Three-Year Plan for promoting regulatory Reform' (OECD 2005). Nevertheless, the Three-Year Plan has less determined than the Council's initial proposals because the responsible ministries restrict core reforms. The division between politicians has been a serious obstacle in overcoming the economic crisis in Japan. In particular, the dominance of the LDP in the Japanese government seems to have slowed progress in responding to the bubble economic crisis.

Ⅴ. Conclusion

In the post war period Japan had succeeded in high growth economic development before the late 1980s. Despite the argument that Japan could reach the high growth based on the market oriented policy and a good economic management, there are little doubt that the Japanese developmental strategies: the strong intervention of the Ministry of Finance and intensive cooperation between groups of companies, based on banks are key elements on economic success in Japan.

Nevertheless, the Japanese economy initiated to suffer from the impact of 'the bubble economy' since the late 1980s.

There have been various explanations for the origin of 'the bubble economy' and its effects. In the Japanese economic transition, the LDP long dominance has brought about serious corruptions rather political stability and the cross holding by banks between companies became a main origins of bad debt problems.

In addition, the strong intervention of the MOF has diminished transparency of financial institutions, and the lifetime-employment system has slowed restructuring of Japanese economy with economic transition. In other words, the outcome of developmental policy in 1960-80 has negatively influenced economic transition in Japan after the late 1980s, and then explores Japanese government' effort to restore its economy at present. Moreover, although the Japanese government has attempted to restore its economy, due to the division between politicians the outcome of governments' reform might have been less than main expectation. Future studies will be able to clarify the political and structural causes of the Japanese economic crisis by comparing the Abe period with the 1990s and attempting political and economic analysis.

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<Abstract>

The Origin of Shrinking Economy in Contemporary Japan

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This study attempts to examine the relationship between the 'bubble economy in the late 1980s in Japan and its developmental strategies in the earlier decades, and then explore the historical origine of 'the bubble economy'. Since the World War Ⅱ Japan had achieved the successful economic development before the late 1980s. It has been often considered that the strong intervention of the Ministry of Finance and intensive cooperation between groups of companies, based on banks are primary elements on economic success in Japan. However, the Japanese economy began to suffer from 'the bubble economy' after the late 1980s. There have been a number of explanations for the cause of 'the bubble economy' and its consequences. This study puts forward the argument that the outcome of developmental policy in 1960-80 has negatively influenced economic transition in Japan after the late 1980s, and then explores Japanese government' effort to restore its economy at present.

Keywords : bubble economy, developmental strategies, intervention, intensive cooperation, financial reform