

Clear and Present Dangers versus Clear But Not Yet Present

Richard Katz

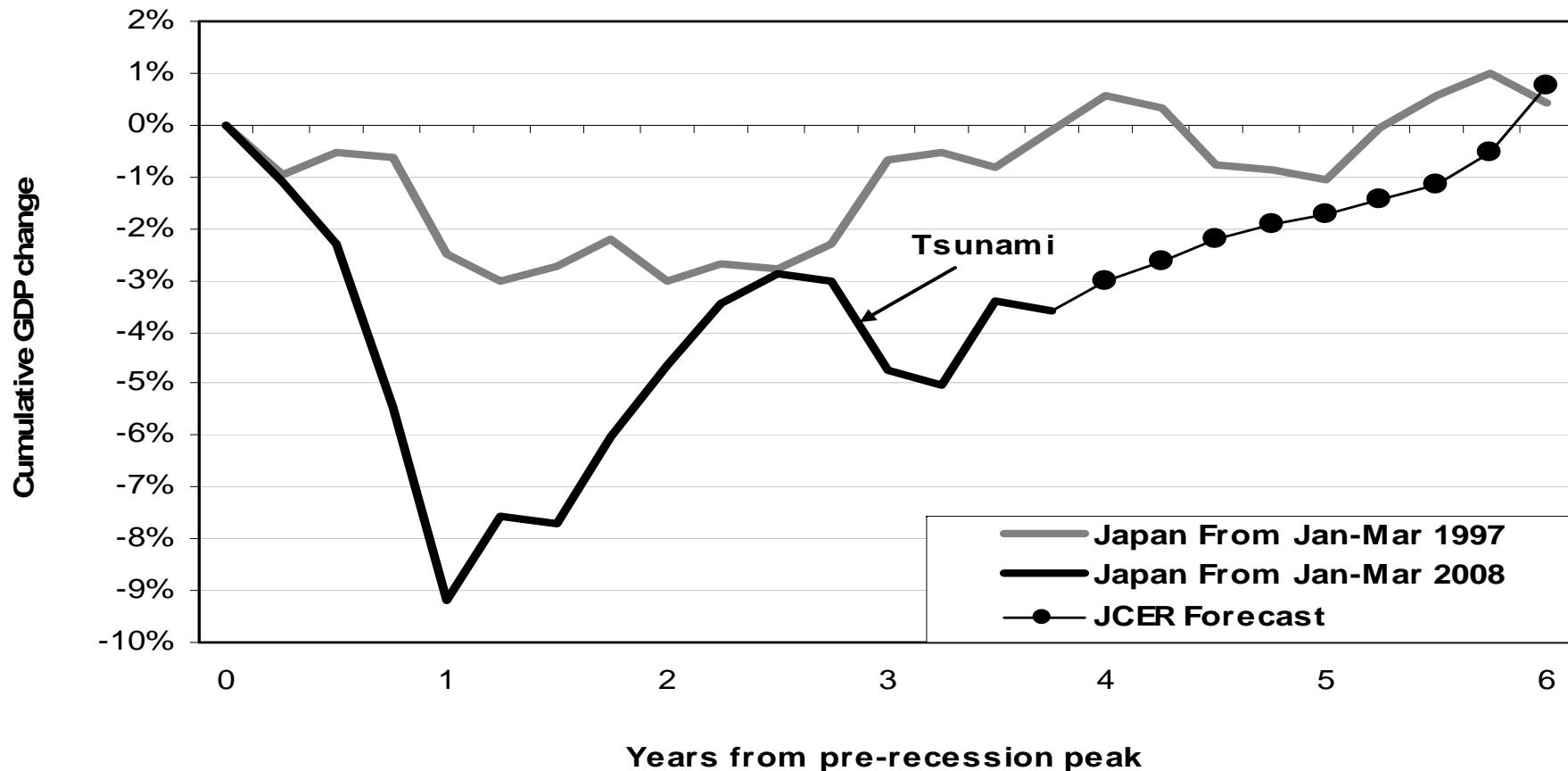
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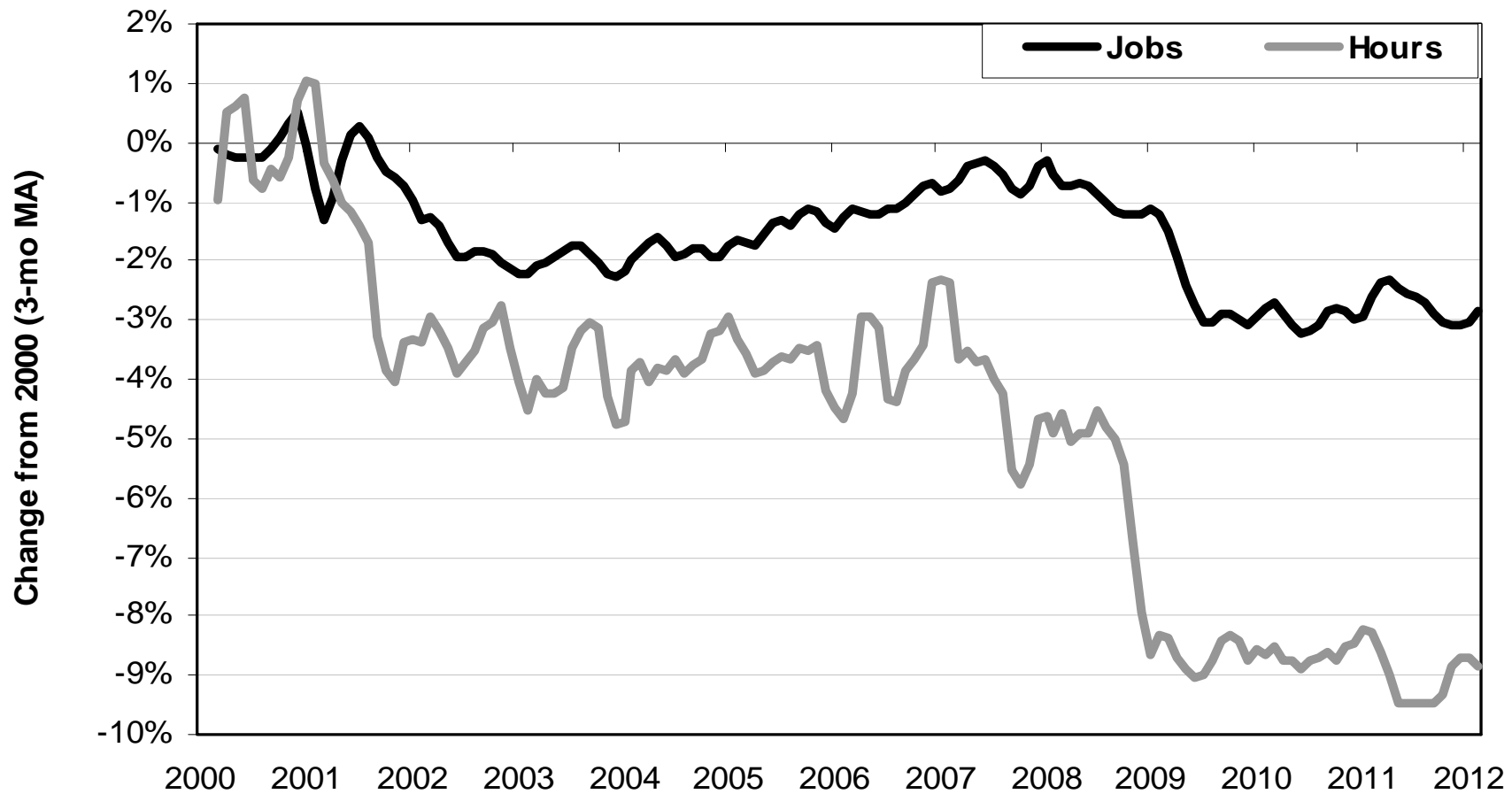
April 26, 2012

GDP Still 3.5% Below Peak; Forecast: 6 Years To Regain Peak

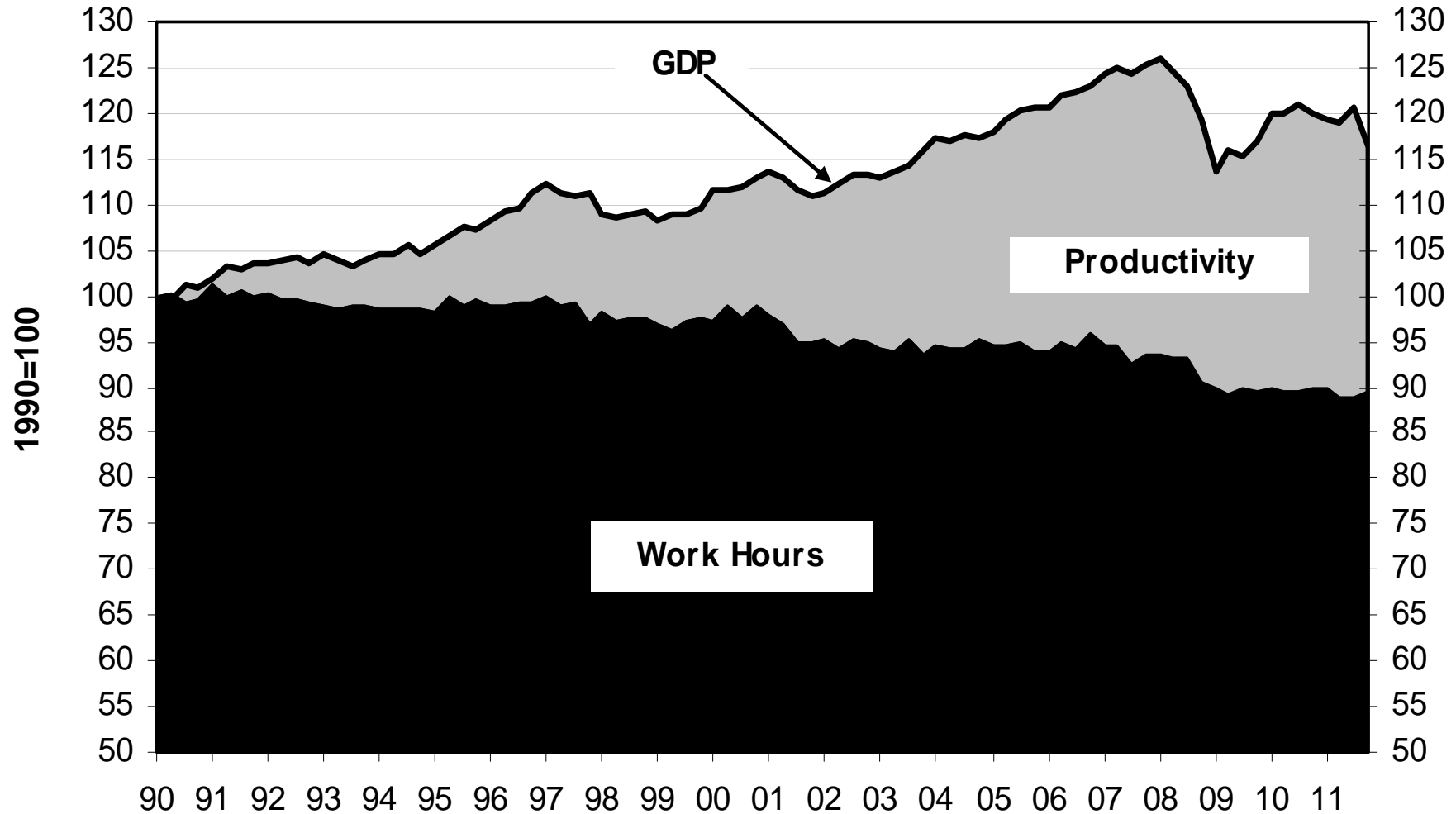


1995 Kobe earthquake barely registered in GDP tables;
electricity makes the difference

Joblessness Seen In Reduced Hours, Not Unemployment Rate

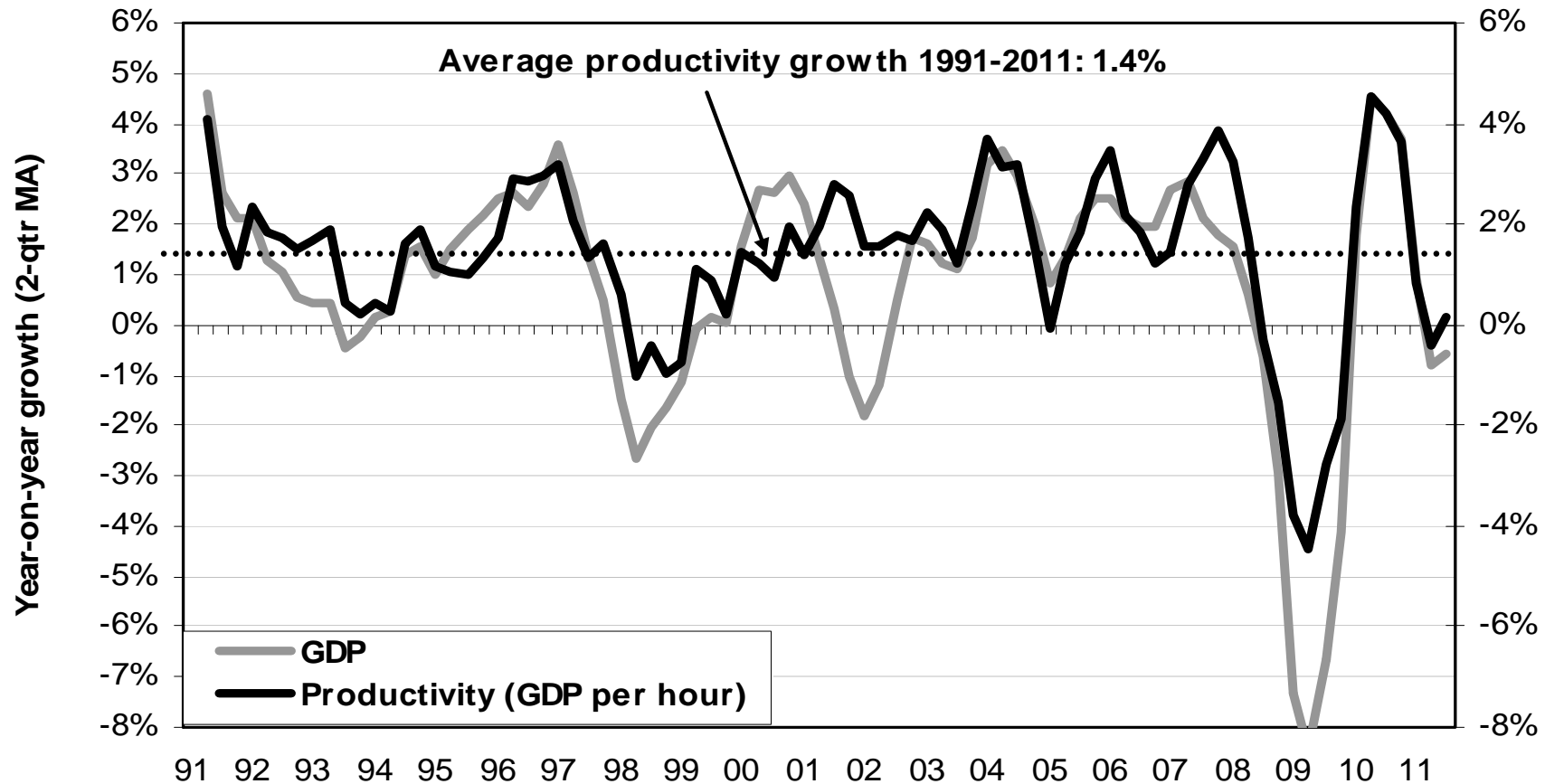


All Growth From Productivity...



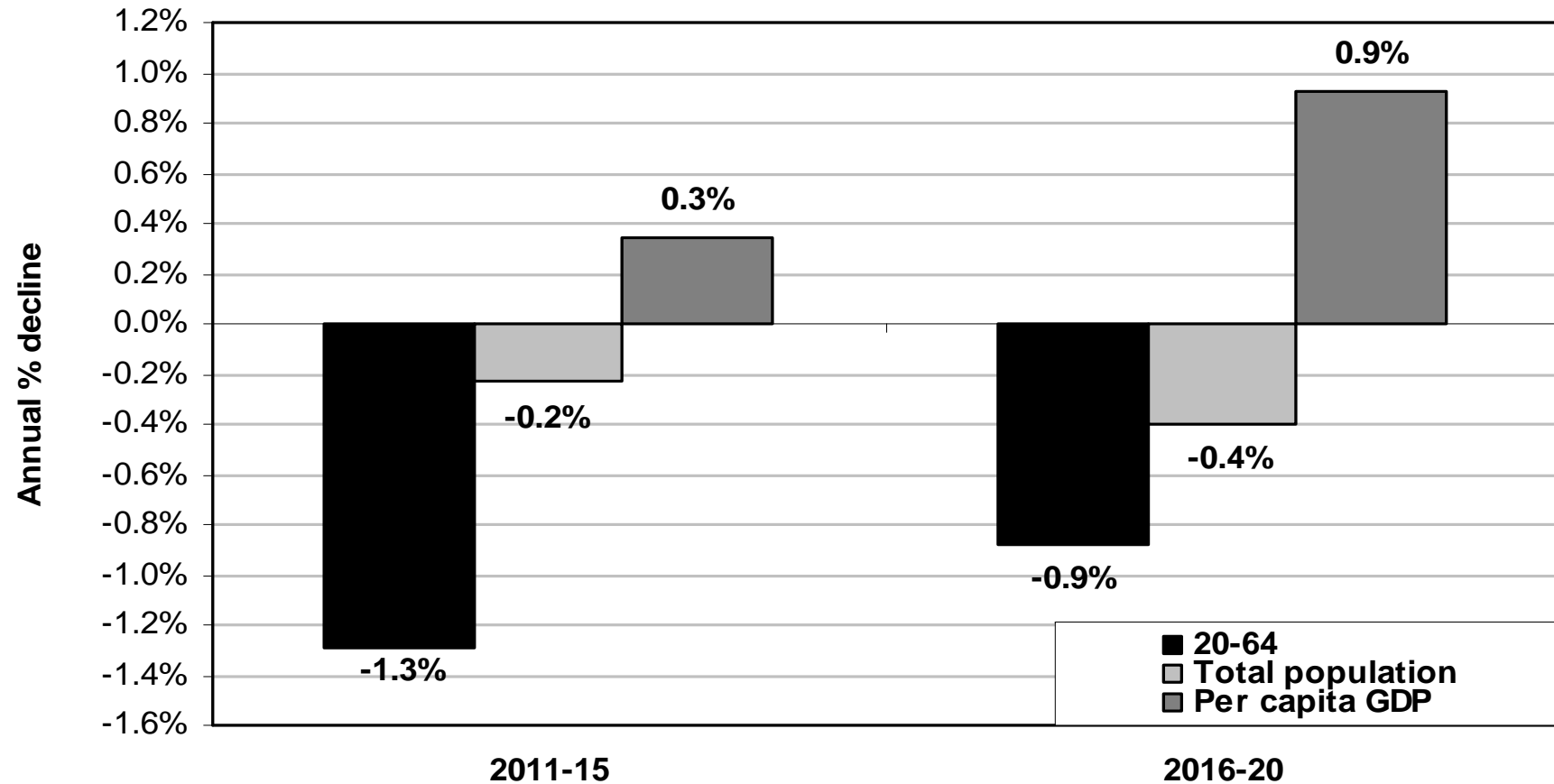
Productivity = GDP per workhour

...But Productivity Anemic 1.4%; GDP Just 0.9%, Per Capita Just 0.7%



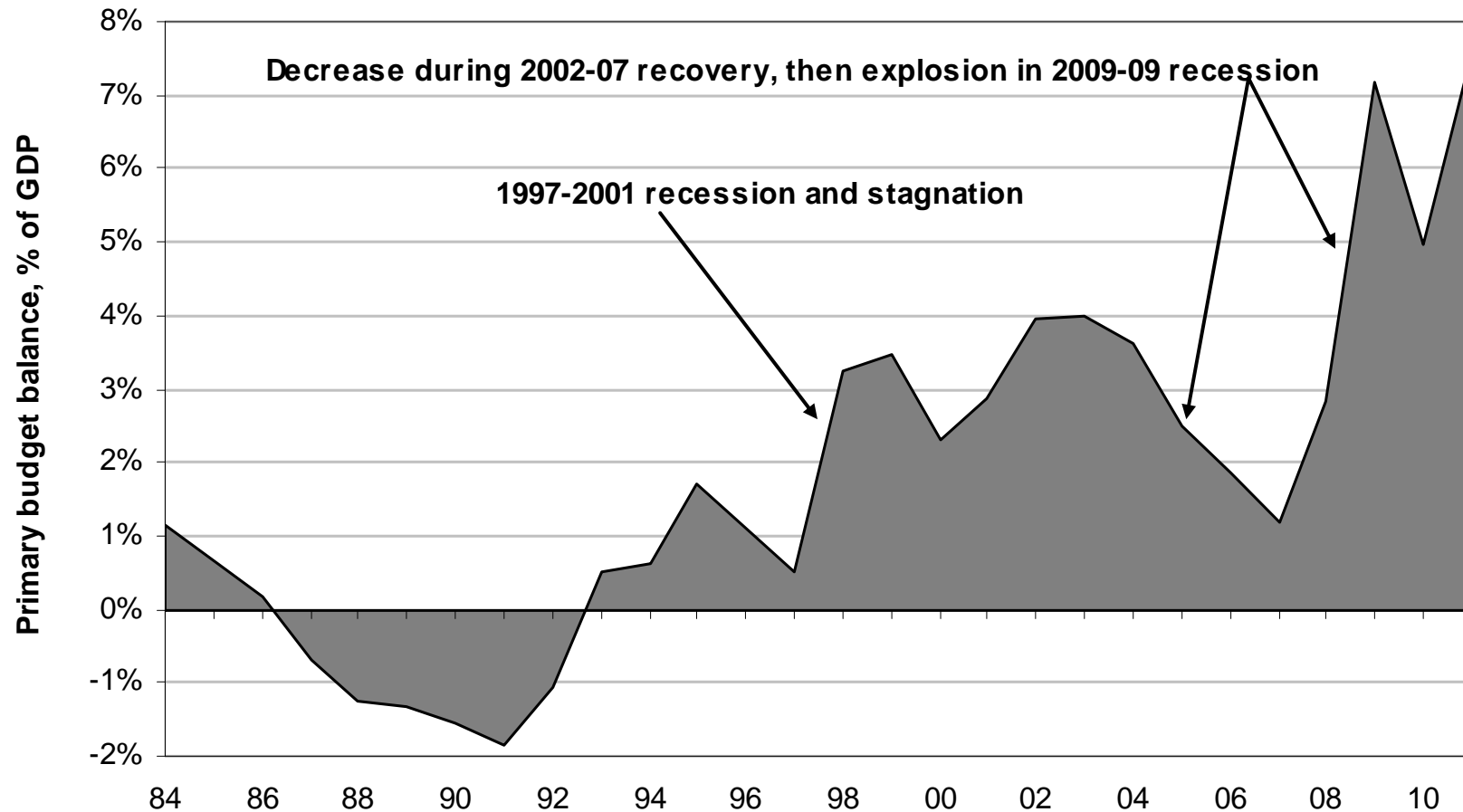
No current structural reform policies to accelerate productivity, such as farm reform, competition policy, labor market, or TPP

Anemic Per Worker GDP Will Mean Lousy Per Capita GDP



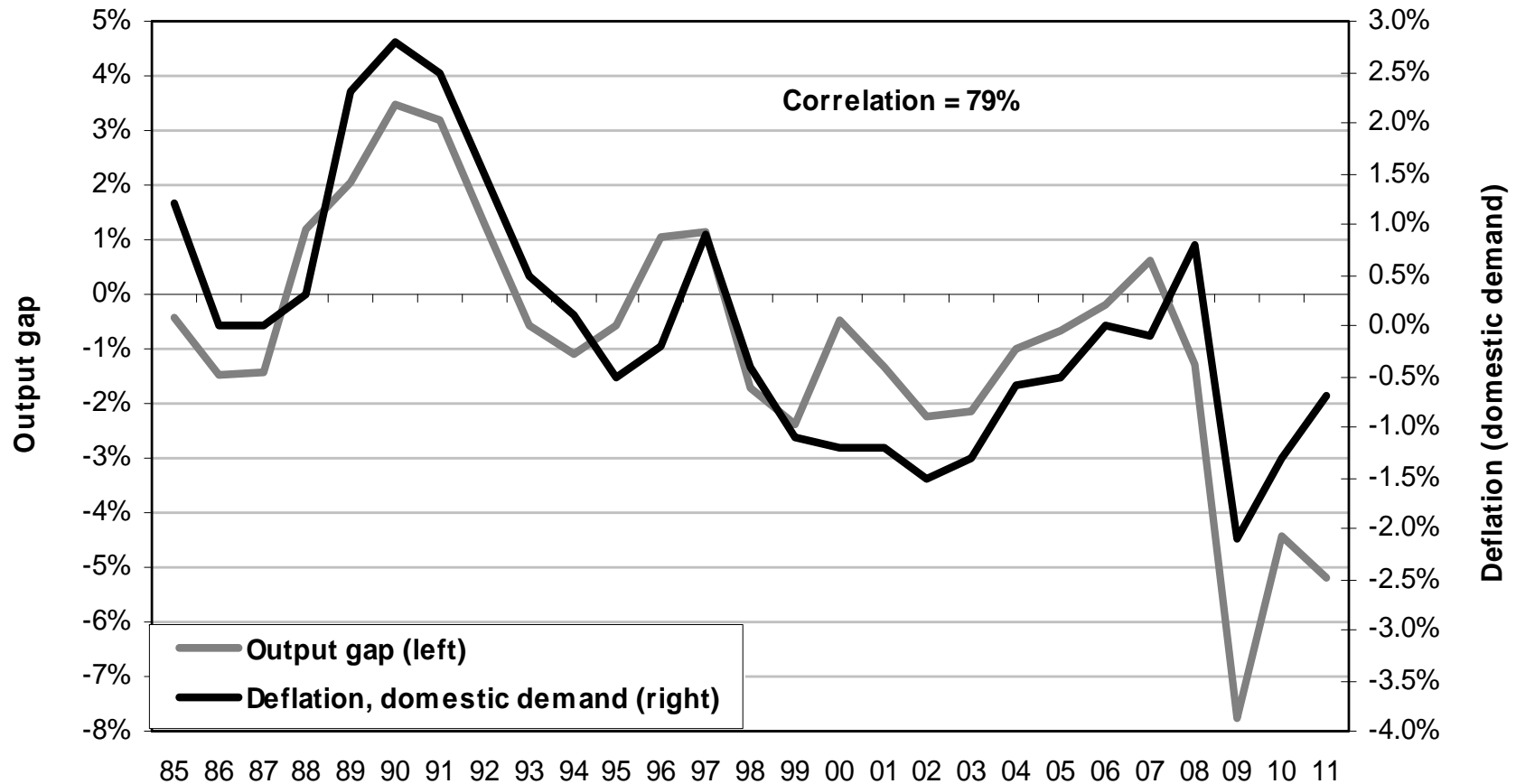
Per capita GDP growth assumes productivity growth remains at 1.4% and no change in workhours per working age person; actual growth should be higher in the process of economy getting back to full capacity

Low Growth Expands Deficit; Better Growth Lowers It



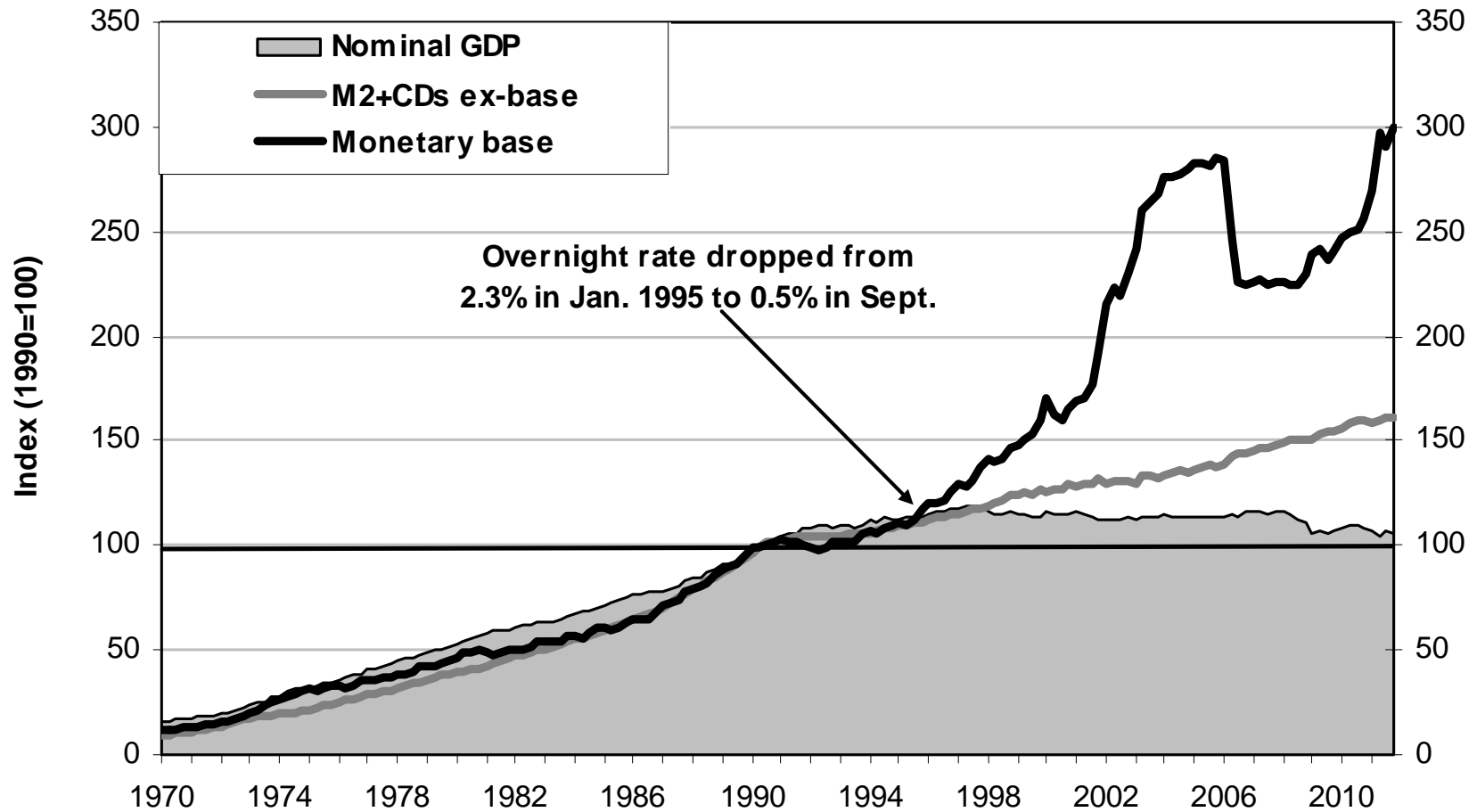
Primary deficit is deficit aside from debt service

Low Growth Worsens Deflation; Better Growth Fights It

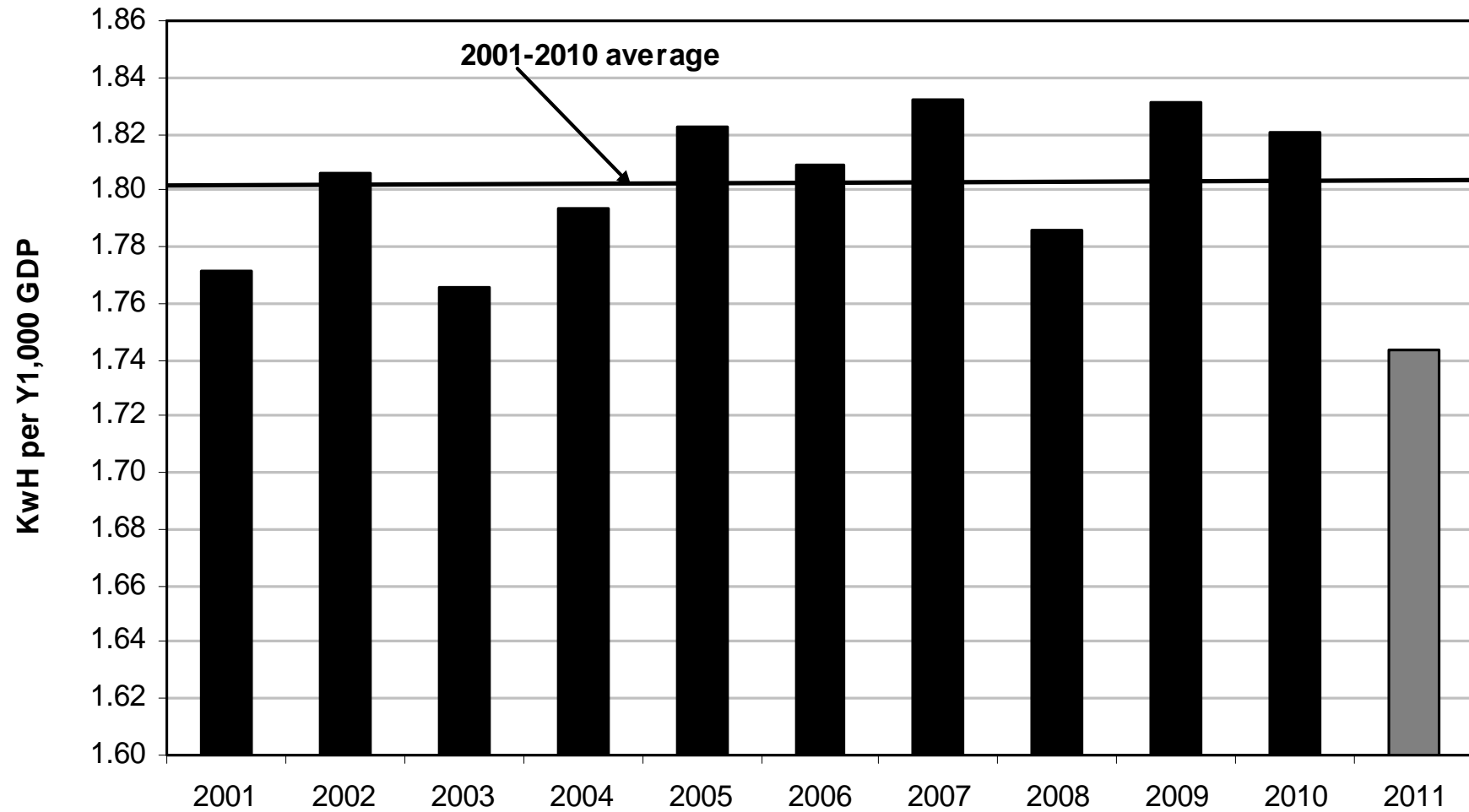


Output gap is gap between actual GDP and what GDP would be at full employment and full capacity-utilization; better growth would eliminate gap 8

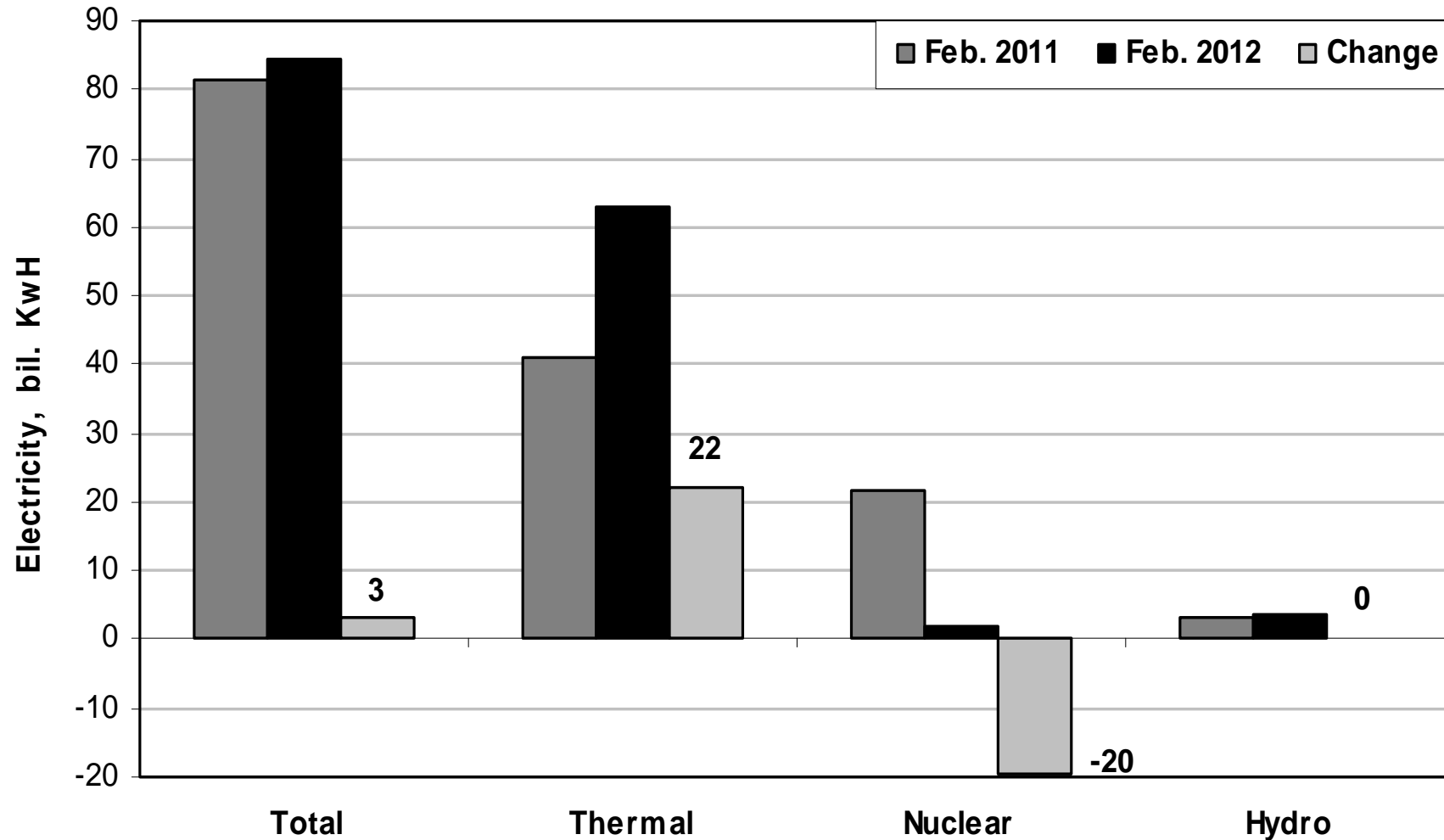
Easy Money Alone Can't Cure Deflation



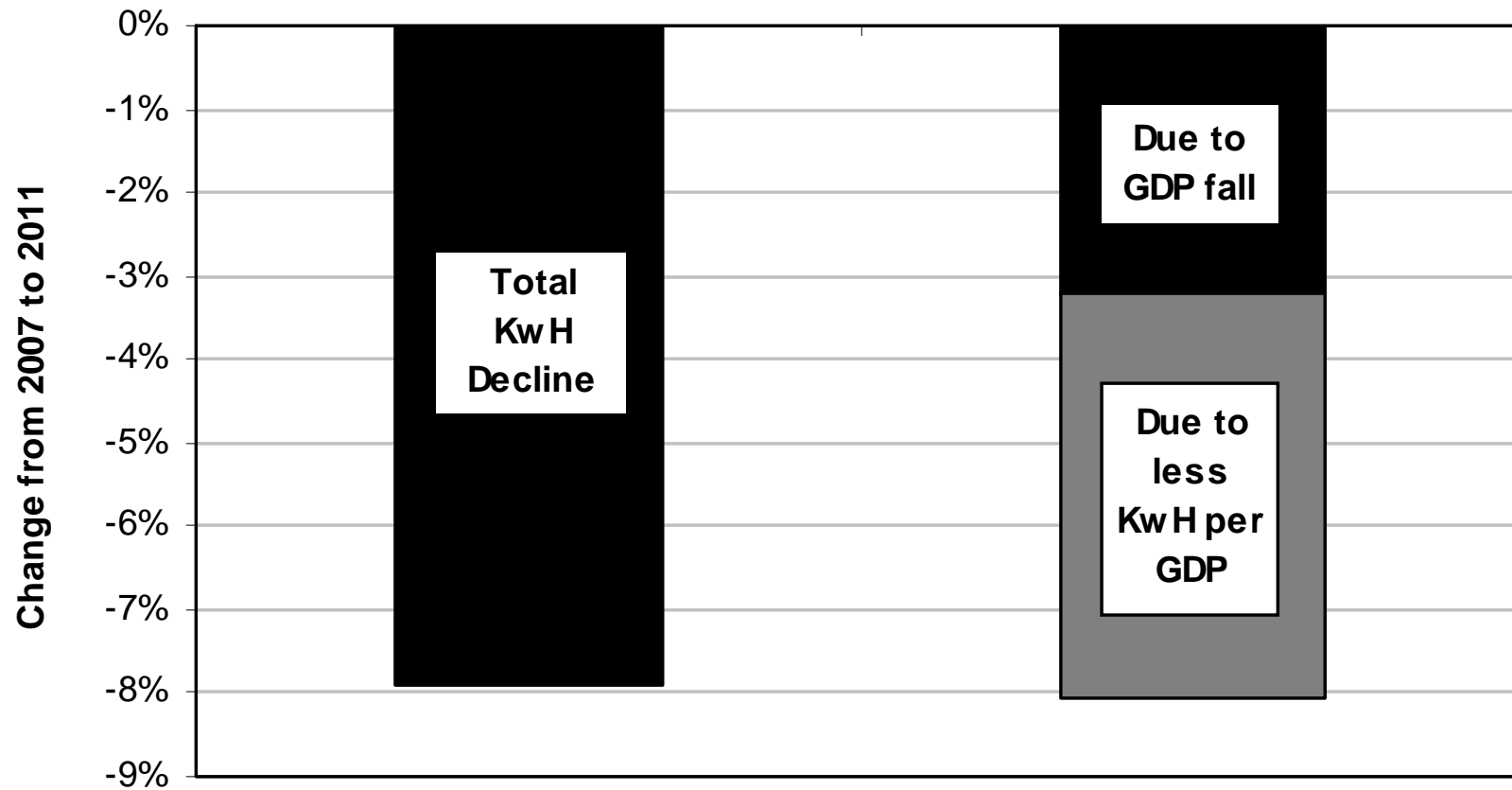
2011 Cut In Electricity Per GDP



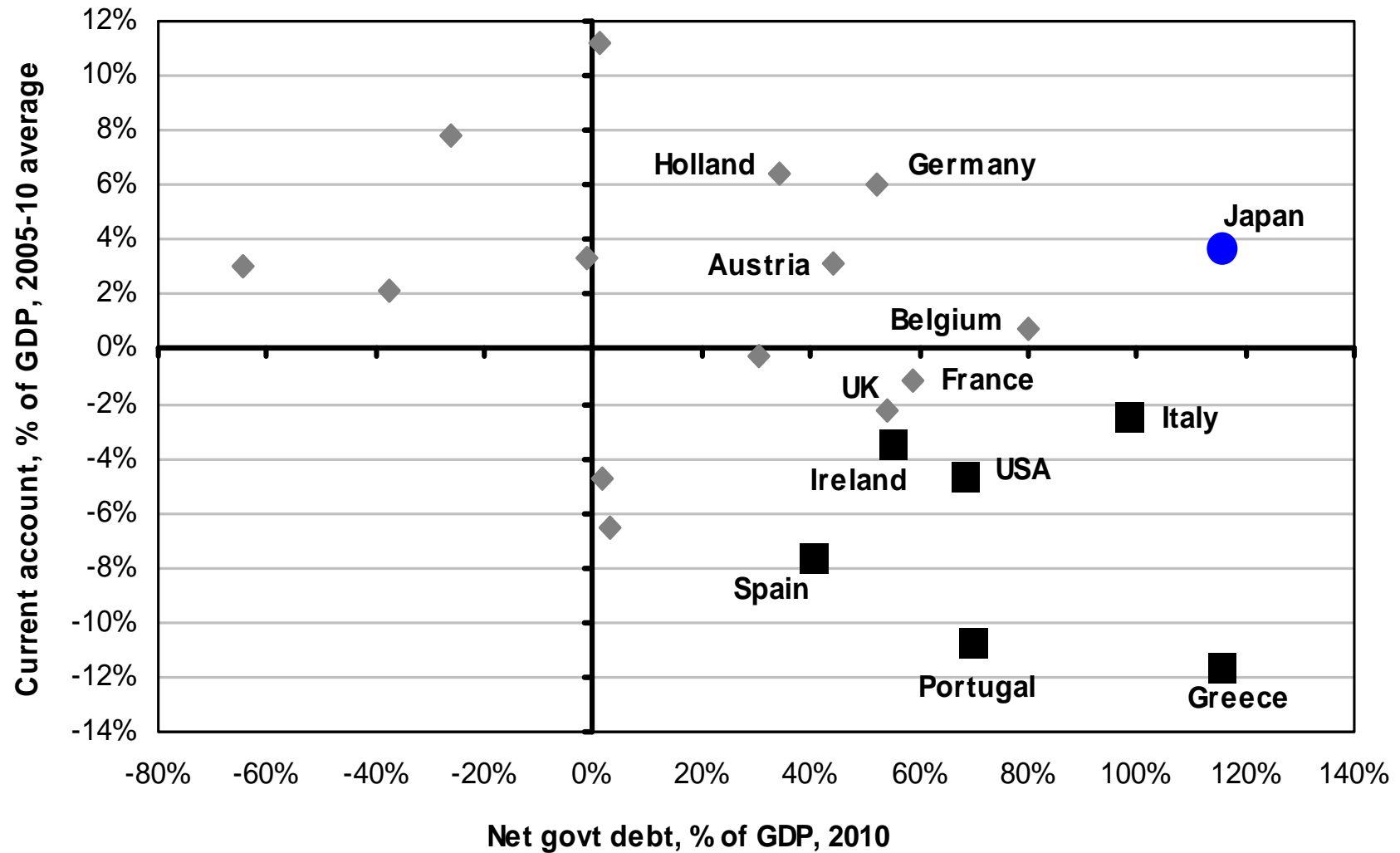
Nukes Down; Oil, LNG Way up



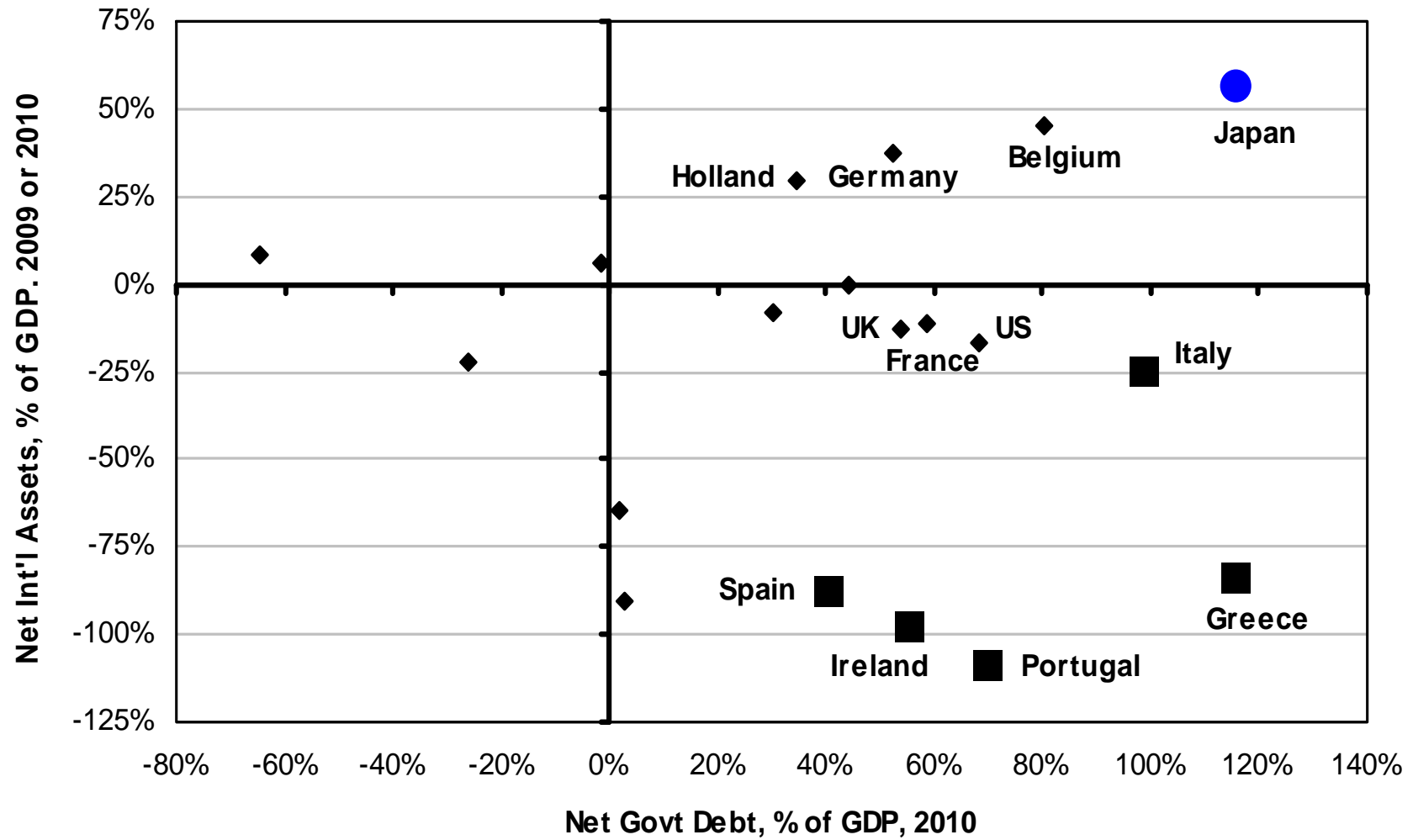
Electricity Demand Down Because GDP Still Down From 2007 Peak



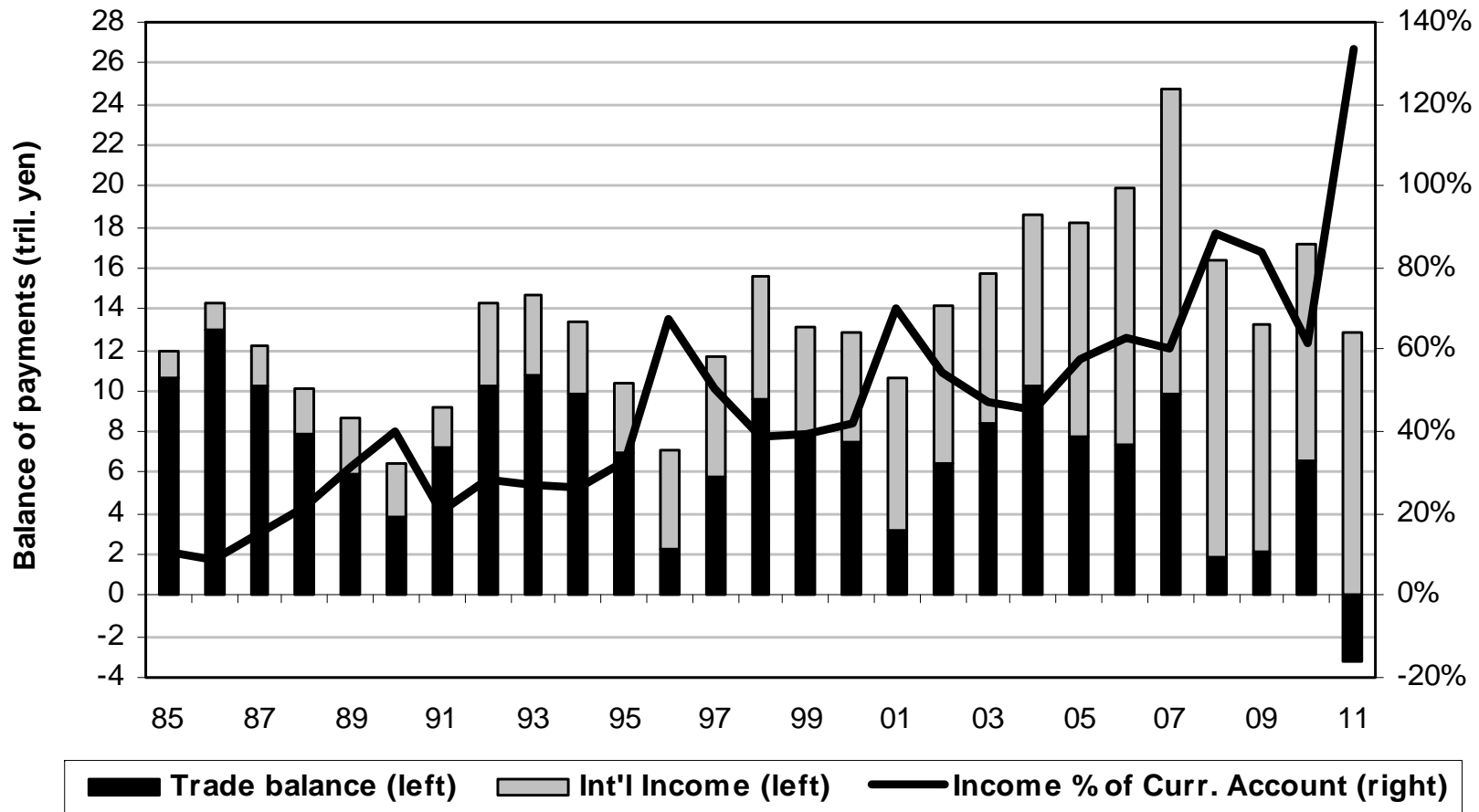
Why Japan Is Not Greece



Why Japan Isn't Greece (cont.)

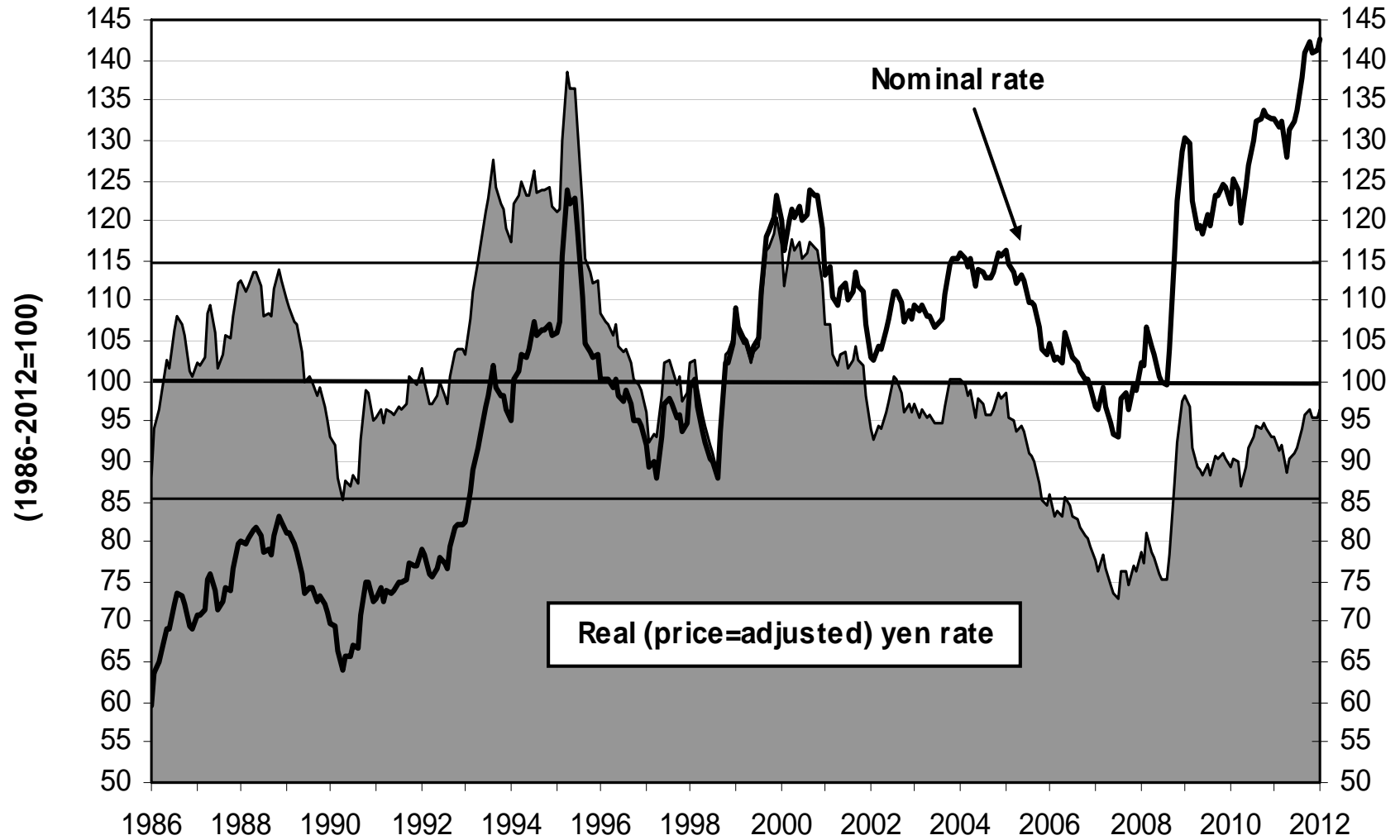


Income, Not Trade, Drives CA Surplus

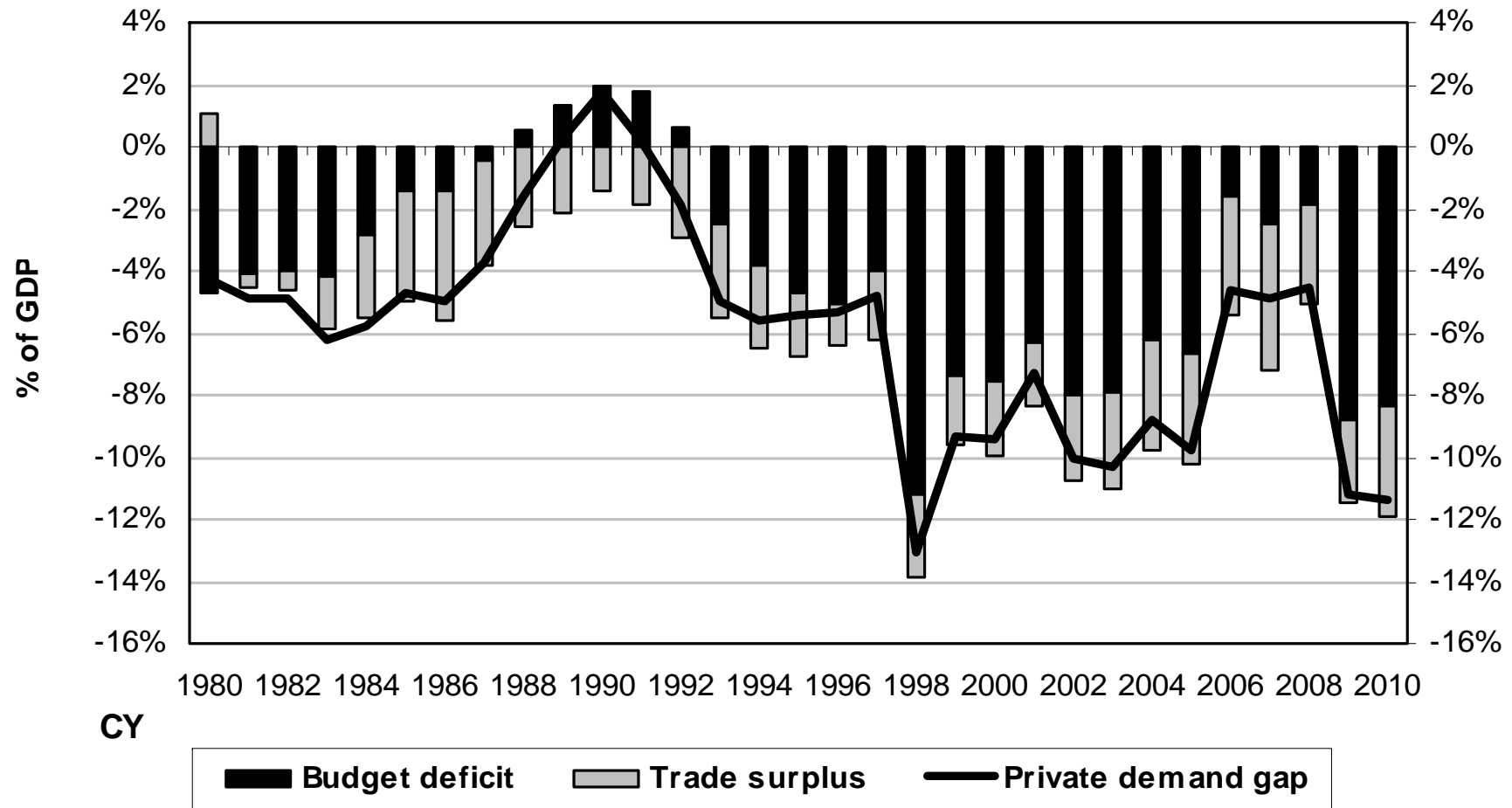


Even if trade deficit, no CA deficit for perhaps a decade, then net assets to draw upon

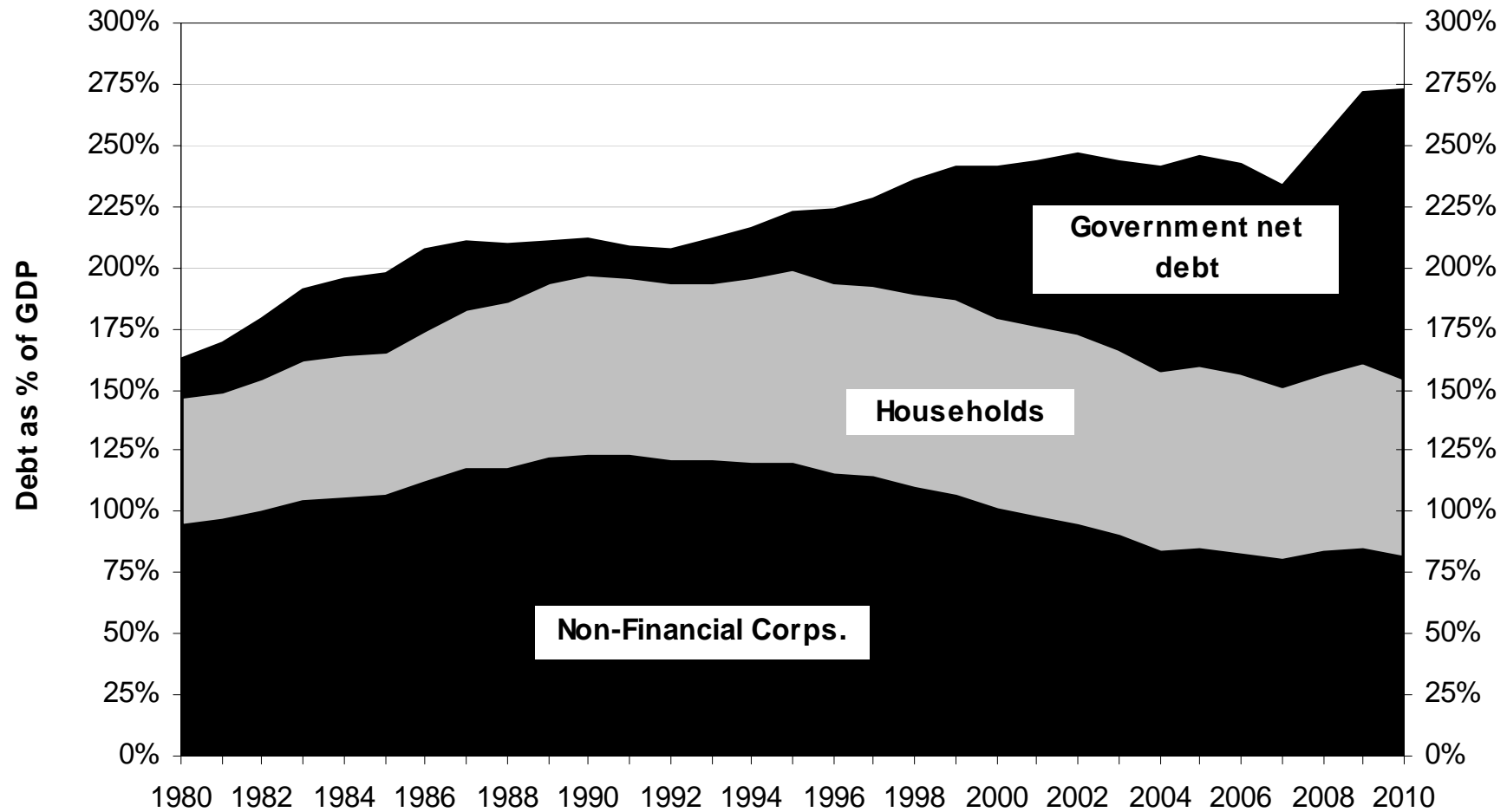
Real Yen *Below* 25-Year Average



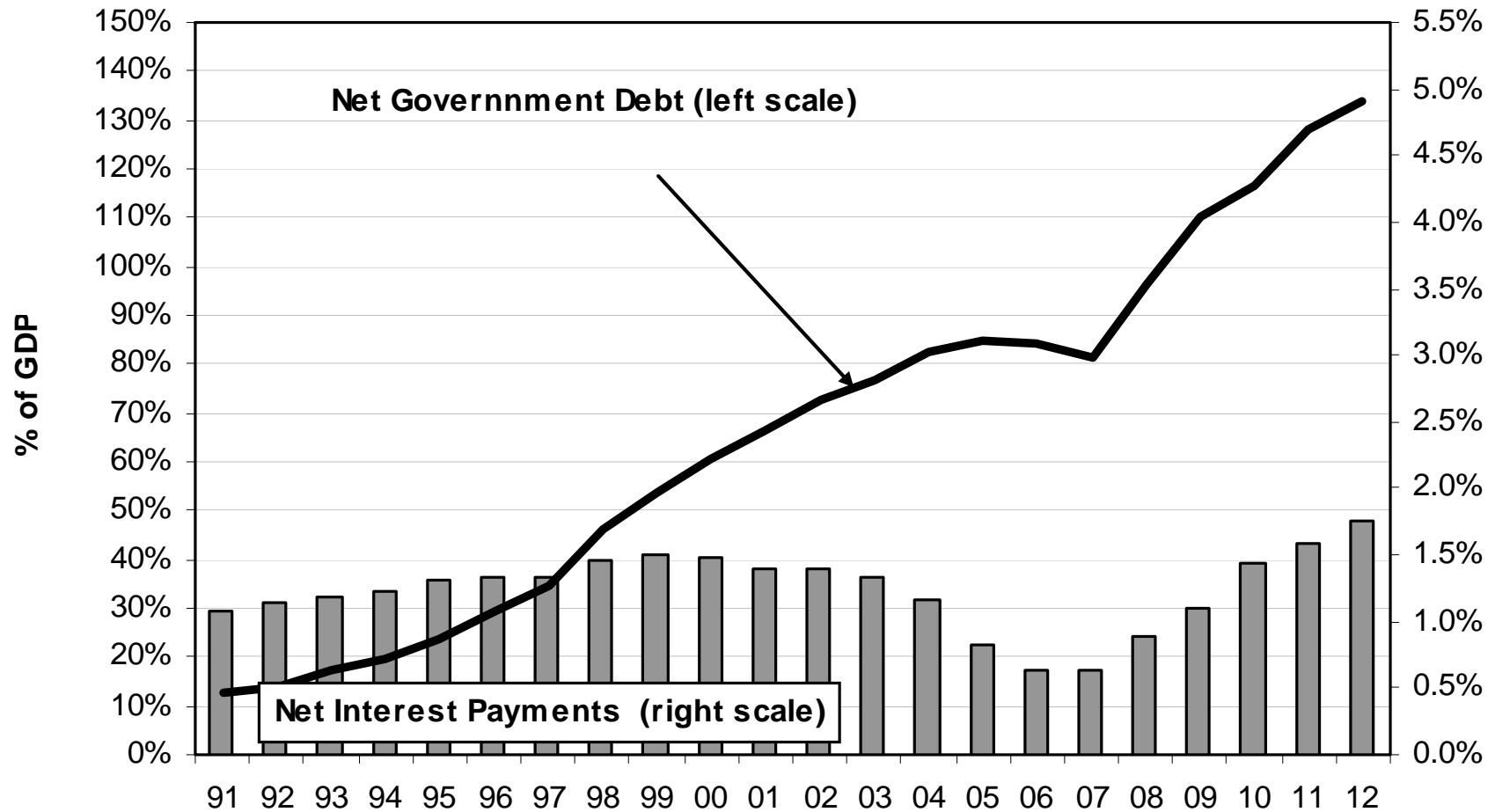
Budget Deficit, Trade Surplus Replace Private Demand Shortfall



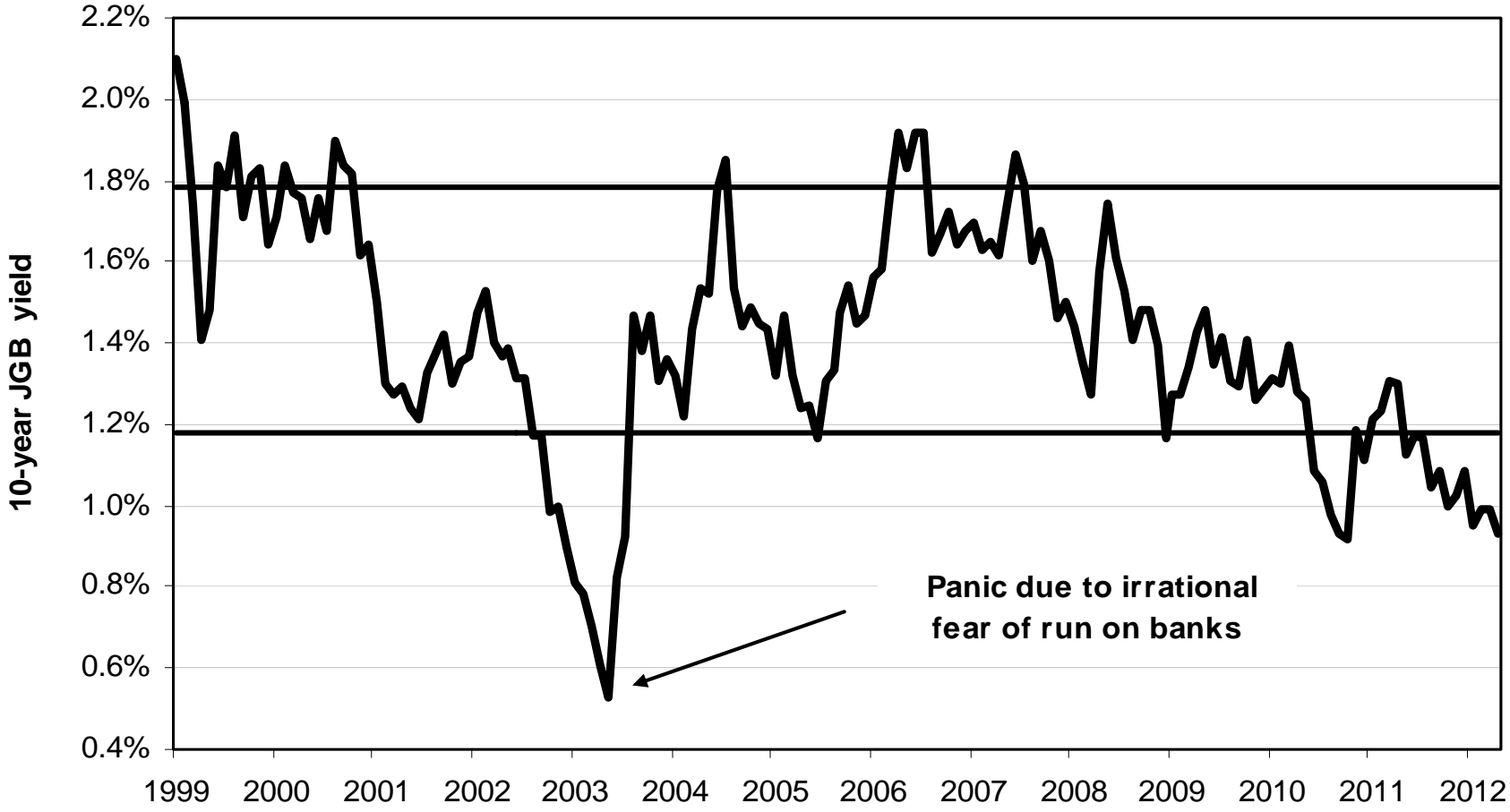
Gov't Borrowing Makes Up for Reduced Private Borrowing



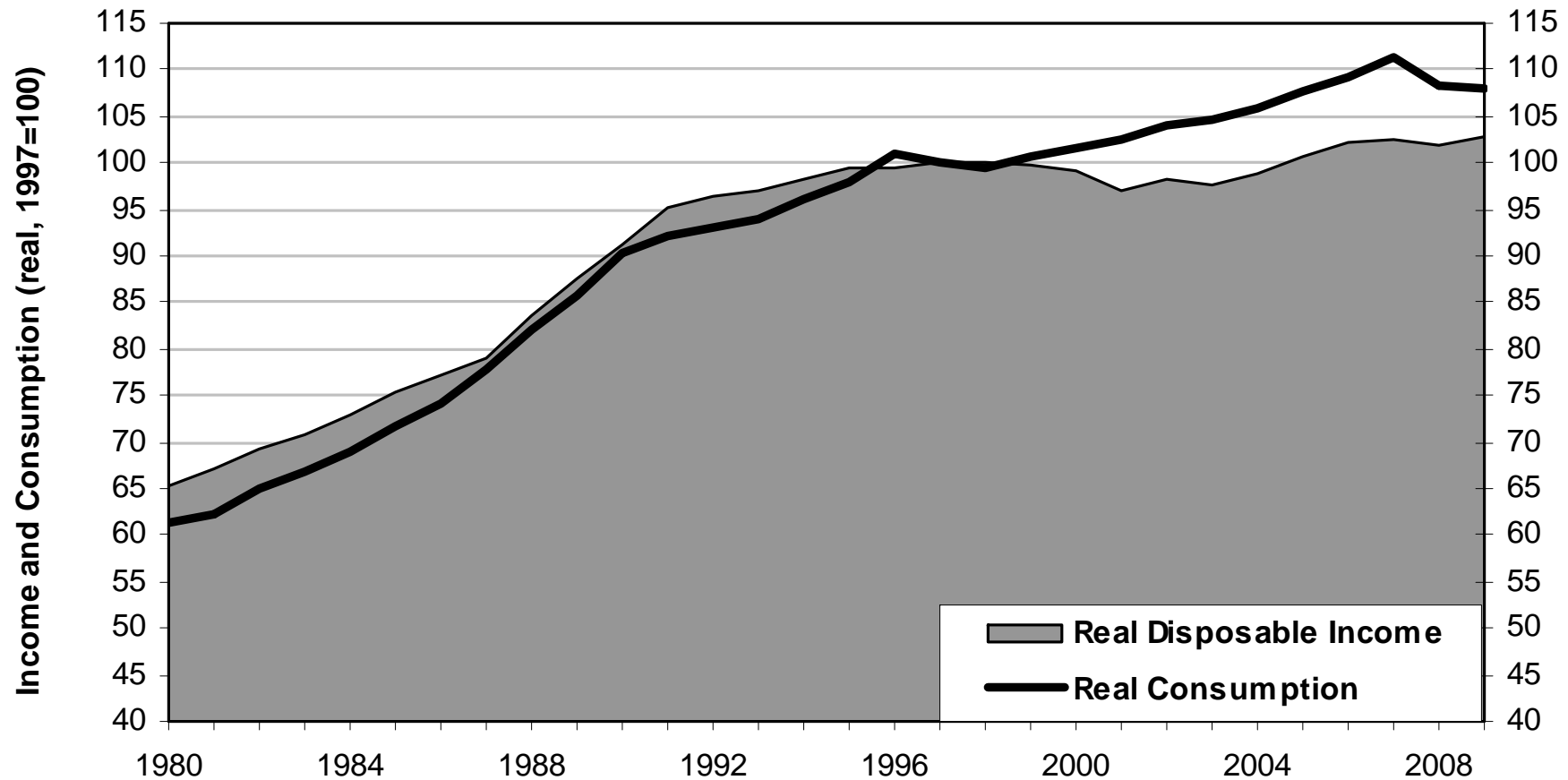
Interest Payments Still Low Despite Debt Explosion



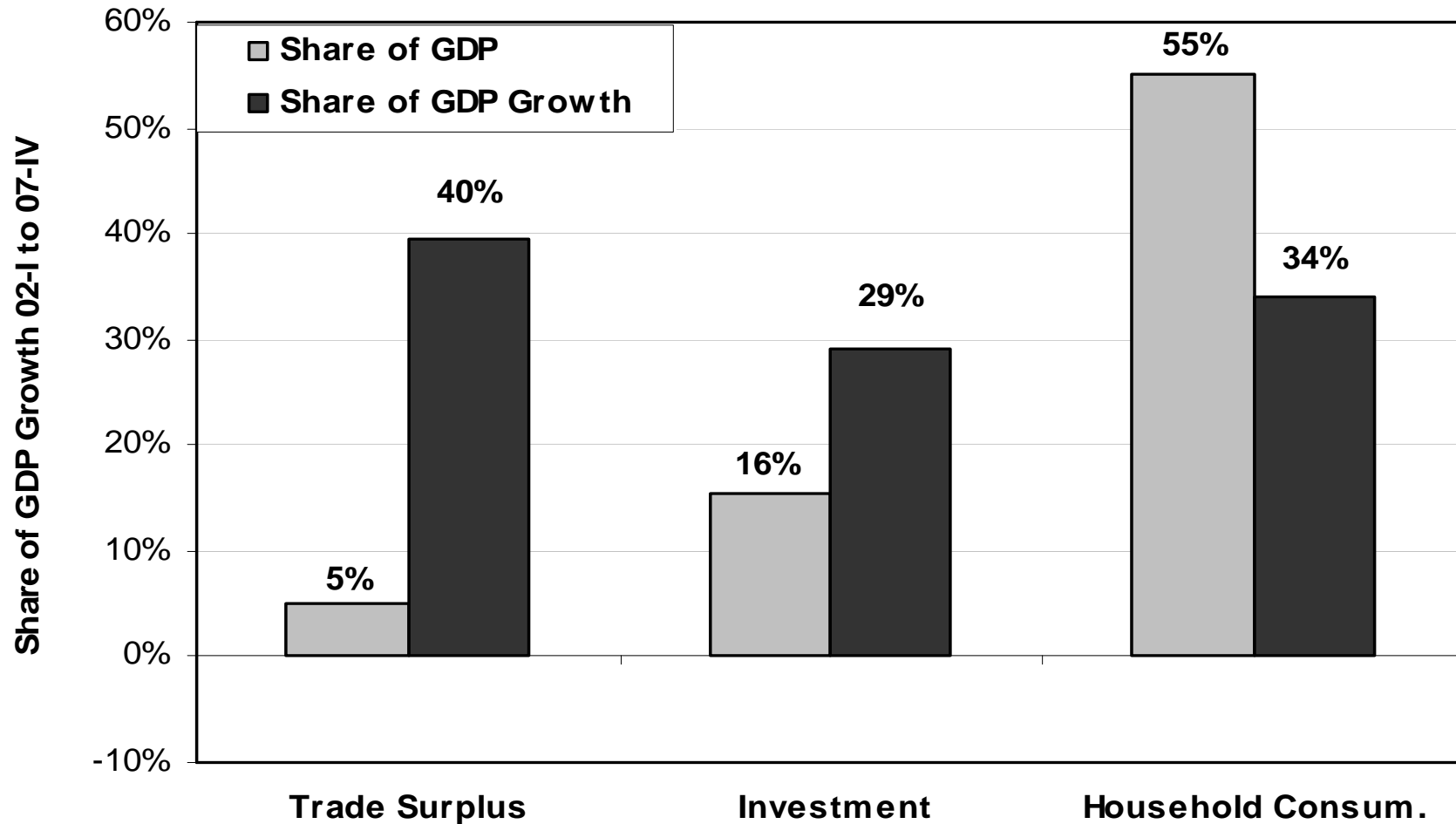
Slack Demand For Credit Keeps Interest Rates Down



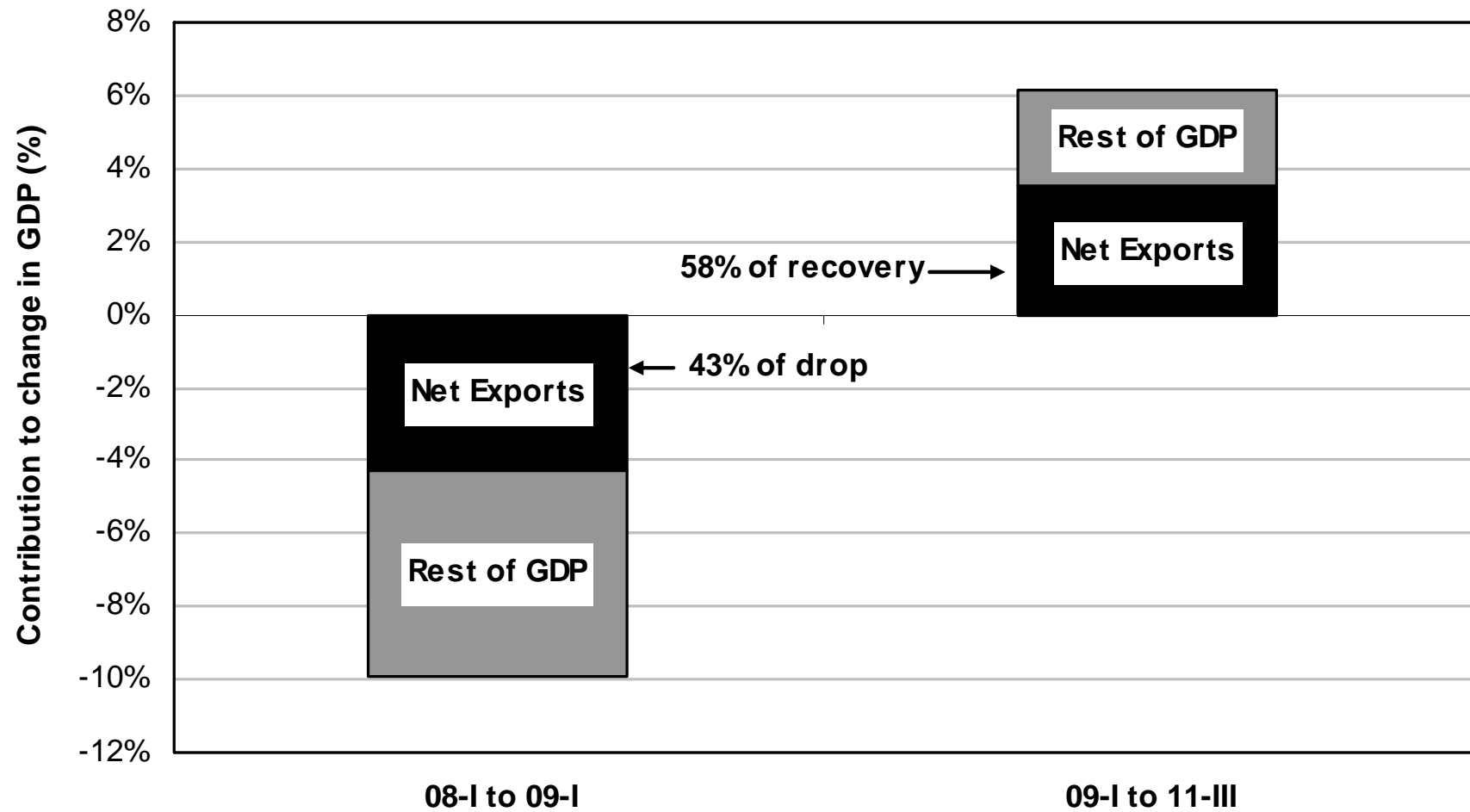
Consumer Spending Flat Because Household Income Flat



Unhealthy Dependence on Trade Surplus to Drive Growth



Trade Surplus Still Pivot For Growth



Alternatives on Tax

- Use fiscal and monetary stimulus to restore full demand
- Combine this with new law to raise taxes once economy hits certain benchmarks, e.g. narrowing of output gap (which will also fight deflation); that will reassure bond markets
- Why tax consumption when structural defect is chronically anemic consumption due to low consumer income?
- Better taxes that would raise revenue and GDP growth: Taxpayer ID, Rezone fake farmland, Change real estate taxes, Change land usage laws

Structural Reform Agenda

- Energy policy
- More domestic and int'l competition, including imports and inward FDI
- Easier for new companies to challenge incumbents (cf. current problems in electronics)
- Improve productivity in backward sectors of dual economy by raising to global benchmarks
- Real labor market flexibility, not wage austerity via irregulars
- Raise household share of national income
- Real social safety net making Japan safe for creative destruction