

On a few economic myths

THIS is to express my personal opinion on a number of often quoted arguments or myths.

1. That after the 2008 financial crisis, countries with savings should increase its domestic consumption to take up world economic slack caused by low activities in most major western economies; US and EC countries. This would buy time for the latter to recover. The chief target audience of this argument is China. Sometimes the argument is presented in a more subtle way: China's growth model was export oriented in the past. Now that export growth has reached its peak, China should embark on domestic consumption as its new growth model.

The cause of this economic downturn is structural, not cyclical. The actions called for would smoothen and buy time for the economy to recover in the case of a cyclical downturn. In a structural one, the root cause of the problem must be dealt with to move on. Almost 3 years down, major western world economies still stuck in the doldrums.
2. That China's economy will overtake US's within a short time, often 20 years is mentioned. Something similar was said of Japan in the late 1980s before the burst of its asset bubble. It was based on calculation on Japan's prevailing economic growth rate then, but it failed to take into accounts that a big part of the growth came from asset bubble and of the physical limitations of Japan.

US's GDP (nominal value) is about 2.5 times the size of China's based on 2010 year figure. A net constant growth rate of about 4.5% to 5% over that of US and over the next 20 years would do the job based on calculation. The above seems very achievable consider that Chinese economic growth rate has been averaging over 10% over the last ten years and that US's growth over the same period has been weak.

Two factors run against the above argument.

One: Like Japan in the 1990s, a big part of China's recent economic growth comes from asset inflation. Another big part comes from government's stimulus spending over the last 2-3 years. It is said that China's asset bubble overwhelms that of US's Subprime bubble. It is now obvious that both asset bubble building and stimulus spending have reached a point that could not be stretched much further and have started to winding down. The central government is now seen trying to steer the economy towards a soft landing away from a potentially hard one.

Two: it is not certain if China could continue to grow at such pace given the current state of the world natural resources supply esp. the oil energy and the current stage of the country's social, environment and infrastructure development. A China that grows at such pace, should it happen, would also benefit its neighboring and other resource rich countries, propping up their growth and resulting in even more stress on the supply of natural resources.

Could China overtake US in the next 20 years? Unlikely.

Would China overtake US in the further near future? It is probable but not a given.
3. That Japan should have an aggressive immigration policy to prop up its anemic economy. That this is obvious seems clear. US benefited a lot, during its country's early days, after WW1 and WW2 and up to this day. Many other countries are benefited from it too. Why not Japan - consider its aging and declining population and anemic economy Japan should have done it long before even needed for that to be suggested?

There are two reasons why an aggressive immigration policy may not be pursued, both related

to longer term effects that Japanese consider more important than immediate and incremental economic benefits.

The first reason is long known. Japan is one of the top most homogeneous countries both linguistically and culturally. Such homogeneity is cherished by most Japanese esp. the older ones. Aggressive immigration policy is a sensitive and even taboo subject most politicians would avoid. The second reason is more complex and less obvious, and has more to do with the psyche of the Japanese. It is about accepting world's resource limitation in general and Japan's own resource limitation in particular and thus seeing pursuit of limitless growth as something likely to be fruitless. This reasoning took shape in the so-called Lost Decade in the 1990s. The 2008 world financial crisis and the recent triple earthquake/tsunami/nuclear disaster further strengthened it. "Why should we go to the extent of aggressive immigration policy when the world economic longer term outlook is becoming ever uncertain and cloudy!"

In modern Japan history there are two economic Miracle eras, one prewar after the Meiji Restoration and one post war in the 1960s to 1980s. Japan ranks 10th in terms of country population and 62th in terms of land area. In general, it lacks natural resources. The islands of Japan are located in a volcanic zone on the Pacific Ring of Fire. Against these harsh realities, Japan is a leading nation in scientific research, and world 3rd economy (it was the world 2nd since 1968 only to be replaced by China in 2010.)

Readings:

["Structural Problems or Cyclical Downturn?"](#) By Robert Reich, he is a professor of Public Policy at UC Berkeley and was Secretary of Labor during the Clinton administration. He spoke at the 2009 Progressive Governance Conference and Summit held March 26-29 in Viña del Mar, Chile.

["Japan and the Ancient Art of Shrugging"](#) In the closing remarks Norihiro Kata, a Waseda University professor, wrote "Freshly overtaken by China, Japan now seem to stand at the vanguard of a new downsizing movement, leading the way for countries bound sooner or later to follow in its wake. In a world whose limits are increasing apparent, Japan and its youths, old beyond their years, may well reveal what it is like to outgrow growth".

["Japan must become immigration powerhouse"](#) In this article, Sakanaka, *former* head of the Tokyo Regional Immigration Bureau, executive director of the Japan Immigration Policy Institute, wrote "We, the Japan Immigration Policy Institute, propose that Japan accept 10 million immigrants over the next 50 year". This translates to 200,000 immigrants per year. Current intake is 15,000 per year.

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