

What we have lost ? A Harrodian approach to the social and economic cost of Japan's 'two lost decades'

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Abstract:

In this paper we discuss the Japanese economy during the 1990s and 2000s, when Japan's economic growth rate and main price indicators were very often negative. The decades are called "the long stagnation" or "the two lost decades." We discover some paradoxes in the neoclassical view, and we show that they can be explained consistently by adopting a Harrodian approach. We focus on the labour market and analyze what was lost in our economic society. We conclude (1) that the trust of employees in their companies was lost because of a wage system that they found unpredictable, (2) that the humane treatment of employees was lost because companies' behavior produced less employment than in the past and mental illness or 'death from overwork' among employees, and (3) that the opportunity for labor-saving technical progress, to which Harrod attached importance, was lost because of an increase in both unpaid work and non-regular employment in which workers' lives were sacrificed. Truly labor-saving innovation should have been developed during the two lost decades, and Japan's G_n will decline still more under given demographic conditions (a decreasing population).

Keyword: *lost decades, stagnation, Harrod, labour market, Japanese economy*

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