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Growth Fatigue

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Abstract
This paper uncovers a new economic growth phenomenon whereby an economy becomes increasingly unresponsive to economic growth policies. This new phenomenon is referred to as growth fatigue. In this short paper, I document the growth fatigue phenomenon for the economy of Japan. My observations on Japan suggest that growth fatigue typically occurs in matured economies and that its causes are largely unknown.

Keywords: growth, fatigue, Japan, fiscal, monetary, unconventional

JEL Classification: B20, E65, E62, E64, O40

1 Introduction
Growth fatigue is a phenomenon whereby an economy becomes increasingly unresponsive to economic growth policies. This paper broadly overviews Japan’s growth performance since World War II and traces out the genesis of the growth fatigue. Specifically, it examines the country’s post-war development and reconstruction efforts in 1945, through the high-growth era of the mid-1950s and early 1970s, to the lost decades of 1990s and the ultra-slow growth era of the 2000s, not just to uncover the growth fatigue phenomenon but also to speculate about its causes and offer some policy suggestions.

The rest of the paper is organized as follows. In Section 2, I delineate five growth eras in Japan and briefly describe each era’s economic policies and corresponding macroeconomic performance. In the last section, I discuss possible causes of the growth fatigue phenomenon and provide some concluding remarks to guide policymakers.

2 Economic growth in Japan: Eras, policies, and performance
Figure 1 depicts Japan’s economic growth rate, by era and economic policies, from 1945-2016. The first four economic growth eras are common in the literature on Japan’s
economic history (see for example, Beckworth 2018; Gilson 2013; Harari and Kashyap 2015; Kuttner 2014; Monroe 1972; McMillan 1984; Peng-Er 2002; Sax-onhouse and Stern 2002; Sadahiro 1991; Yoshioka and Kawasaki 2016; among others). I introduce a fifth era called the growth fatigue era.

Figure 1: Economic growth rates by era/economic policies (1945-2016)

Japan’s modern economic history began with the post-war development and reconstruction efforts in 1945. The bulk of the reconstruction task was placed under the supervision of the Supreme Commander of the Allied Powers, General Douglas MacArthur, the authority that was to govern Japan for the immediate future. After periods of stabilization, staggered growth, inflation, and recession, Japan entered a high-growth era from the mid-1950s to the early 1970s, growing at an annual average rate of 9.6%. The high-growth period kicked off with the 1955 Five-Year Plan for Self-Sufficiency under Prime Minister Ichiro. Several consecutive expansionary fiscal and monetary policies were implemented by other Prime Ministers throughout the 1960s and early 1970s to keep the economy on a strong sustained growth path.

In 1974, the country entered a moderate growth era that lasted until 1989. During this era, two new economic plans – the 1974 New Economic and Social Development Plan and the 1988 New Five Year Plan – were implemented and supported by several other fiscal and monetary policy interventions. The average annual growth rate in the moderate growth era was 3.9%. However, from 1990-1999, Japan’s economic growth decelerated. In this slow growth era, the average annual growth rate was 2.9%, less than one-third of the average annual growth rate during the high growth era.

Since 2000, Japan’s economy entered into an ultra-slow growth period. This era recorded the slowest growth in the country’s history (0.8%) despite the extraordinary measures taken by the government to revive the economy: from the 2001 zero interest rate policy (ZIRP) through the 2012 structural reforms and the unconventional monetary policy of quantitative and qualitative easing since 2013. I refer to this ultra-slow growth era of the 2000s as the growth fatigue era.
3 What explains the growth fatigue phenomenon?

In the case of Japan, perhaps the answer to the faltered growth performance in the last two decades lies not in the theories of structural stagnation but in the law of large numbers which holds that rapid growth slows down as the size of the economy increases. Perhaps we missed something important or inconsequential about the evolutionary nature of the country’s economic growth process. Perhaps the tried and tested conventional fiscal and monetary policies as well as the unconventional monetary policy of quantitative and qualitative easing, are not as effective as we want to believe.

As it stands now, the precise cause(s) of the growth fatigue phenomenon is unknown. Consequently, we can only speculate. My conjecture is that, at a more fundamental level, Japan’s economy (and other economies alike) share one of human species’ primary traits, i.e., fatigue. Just as fatigue overcomes humans after long exhaustive periods of activity, the economy also fatigues after extended periods of rapid growth, and no matter what stimuli – endogenous or exogenous – are thrown at it to keep it going, the economy simply cannot keep up. All it perhaps wants is some rest to revitalize. If this conjecture merits any consideration, then the challenge boils down to finding ways of determining when the economy enters into this fatigue phase, and rather than eagerly coercing the economy to recover, policymakers may want to give it some time to revitalize before initiating carefully considered interventionist policies.

References


