



# Is the US the new Japan?

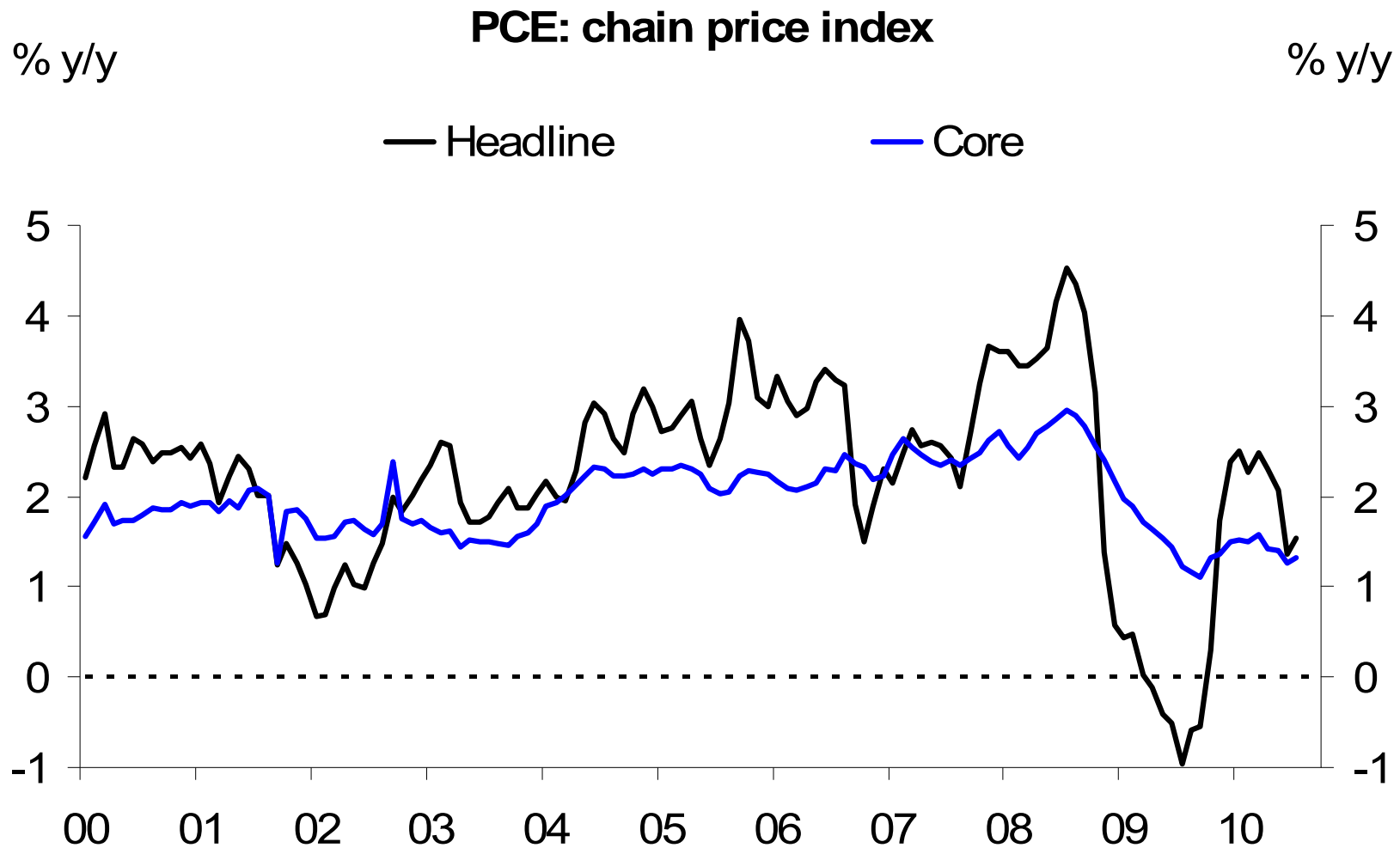
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*Passion to Perform*

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First a reminder: US is nowhere near deflation at the moment. In fact, inflation is closer to 2 than 0



## Outline



- 1) Comparing Japan's experience in the 1990s with the US today
- 2) Comparing the resilience of the Japanese economy with the resilience of the US economy
- 3) The problem in the US economy: Imbalances in the housing, banking and household sectors. It will not take ten years to correct these imbalances.
- 4) Conclusion



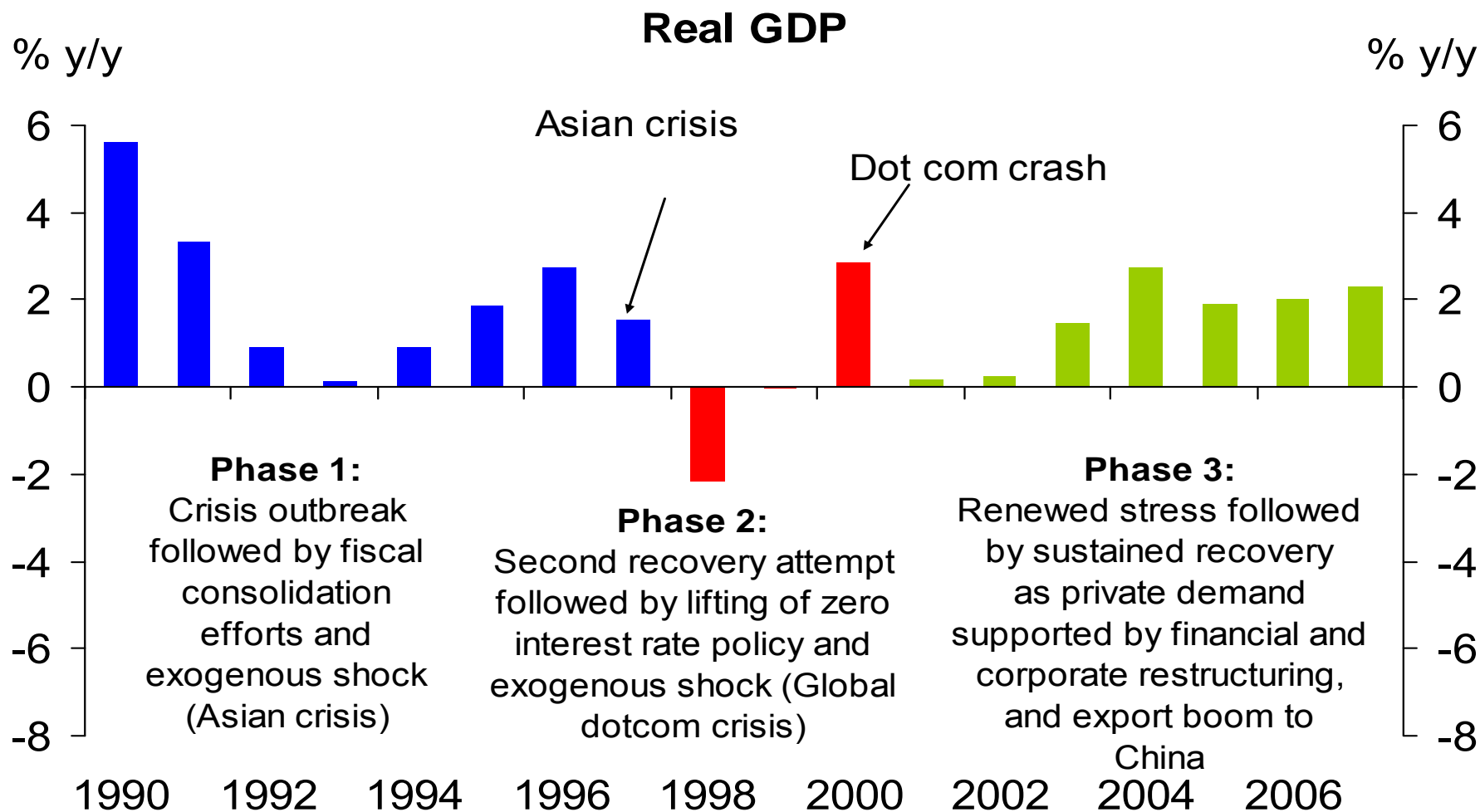
# Comparing Japan's experience in the 1990s with the US today

## Comparing Japan with the US



- Japan had problems in the financial sector and in the corporate sector
- Difference between Japan and the US is that the policy response in the US has been much faster and bigger than it was in Japan in the 1990s.
- In addition, the US economy is more resilient than Japan's economy
- As a result, we should expect faster adjustment of the current imbalances in the US housing, banking, and consumer sectors.

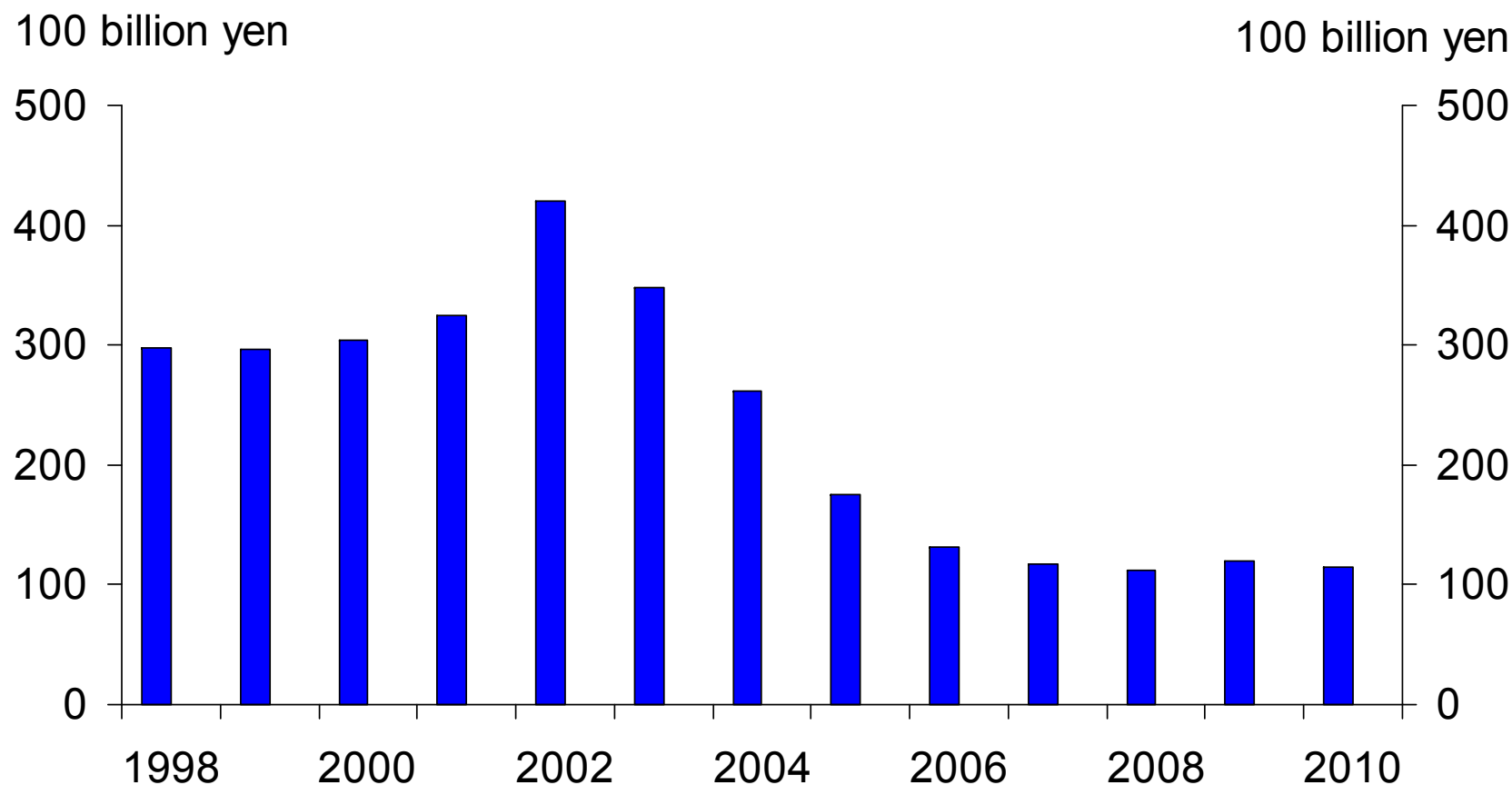
# Three phases in Japan's banking crisis





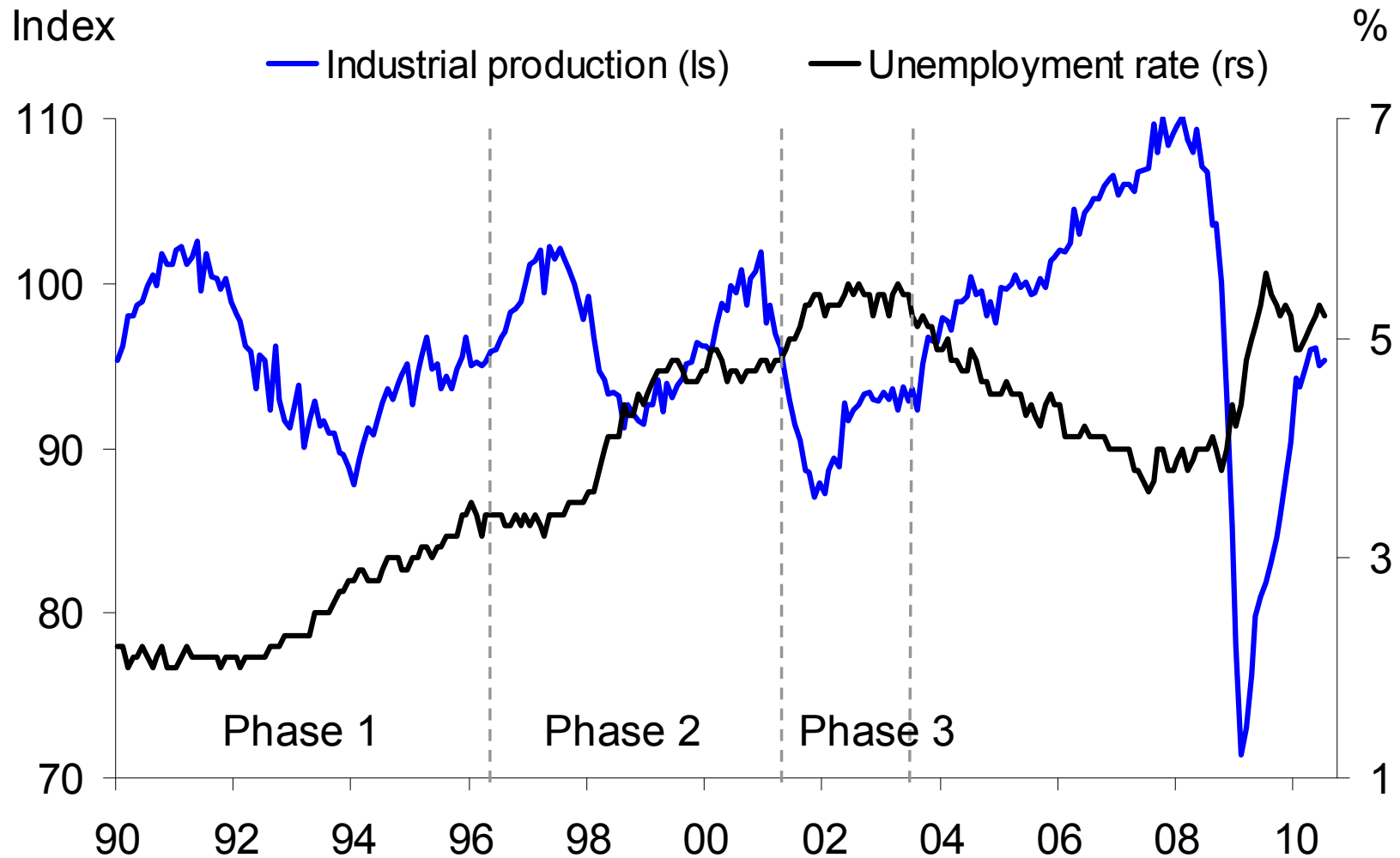
## Japan: The crisis began in 1990 and lasted more than ten years

Nonperforming loans in Japanese banks\*



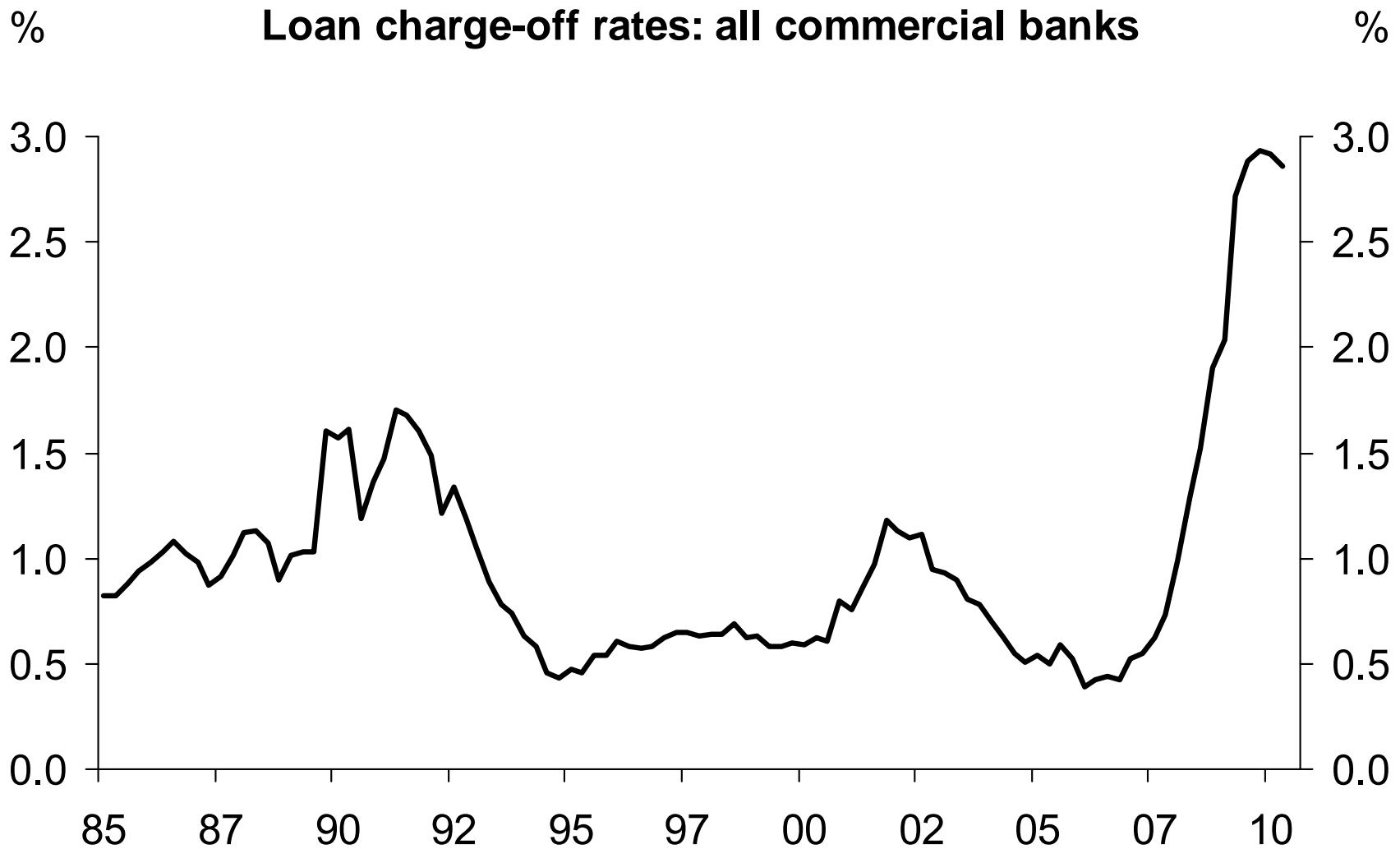
\*Denotes the March data of the corresponding year

# Japan: Unemployment started falling in 2003 once the banking system had been fixed





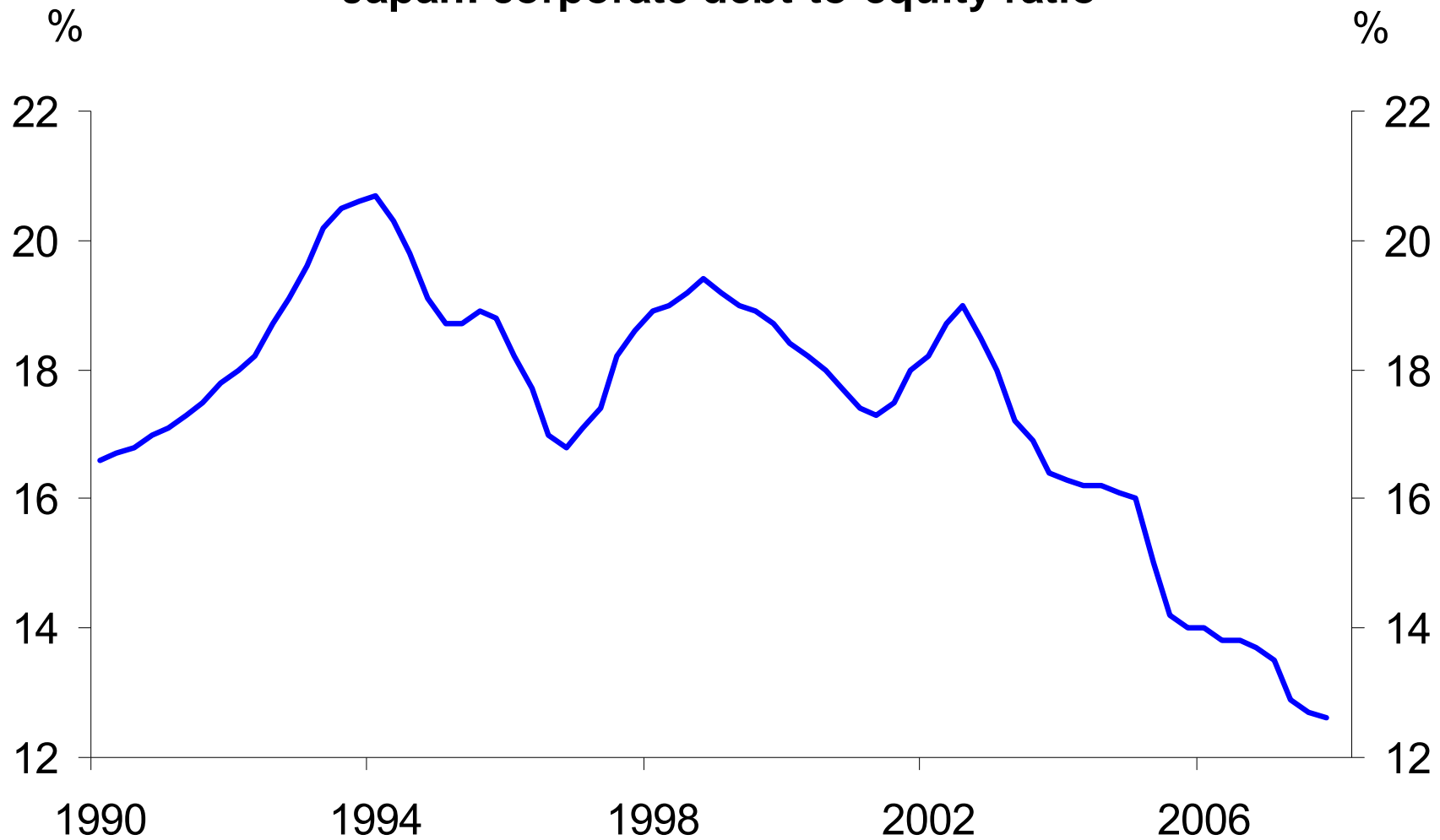
# The US banking system has already turned the corner



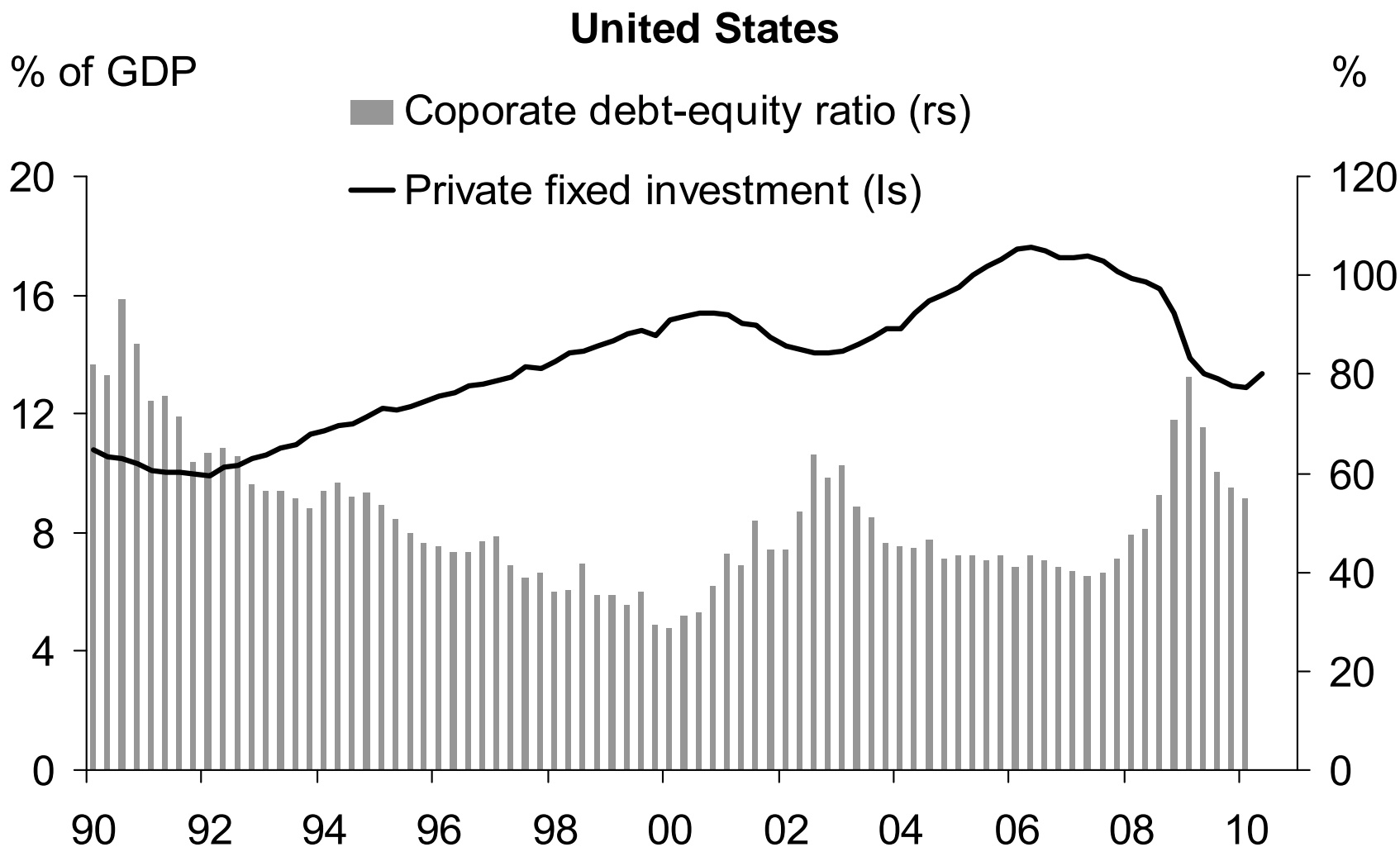
# Japan: Corporate deleveraging continues



## Japan: corporate debt-to-equity ratio



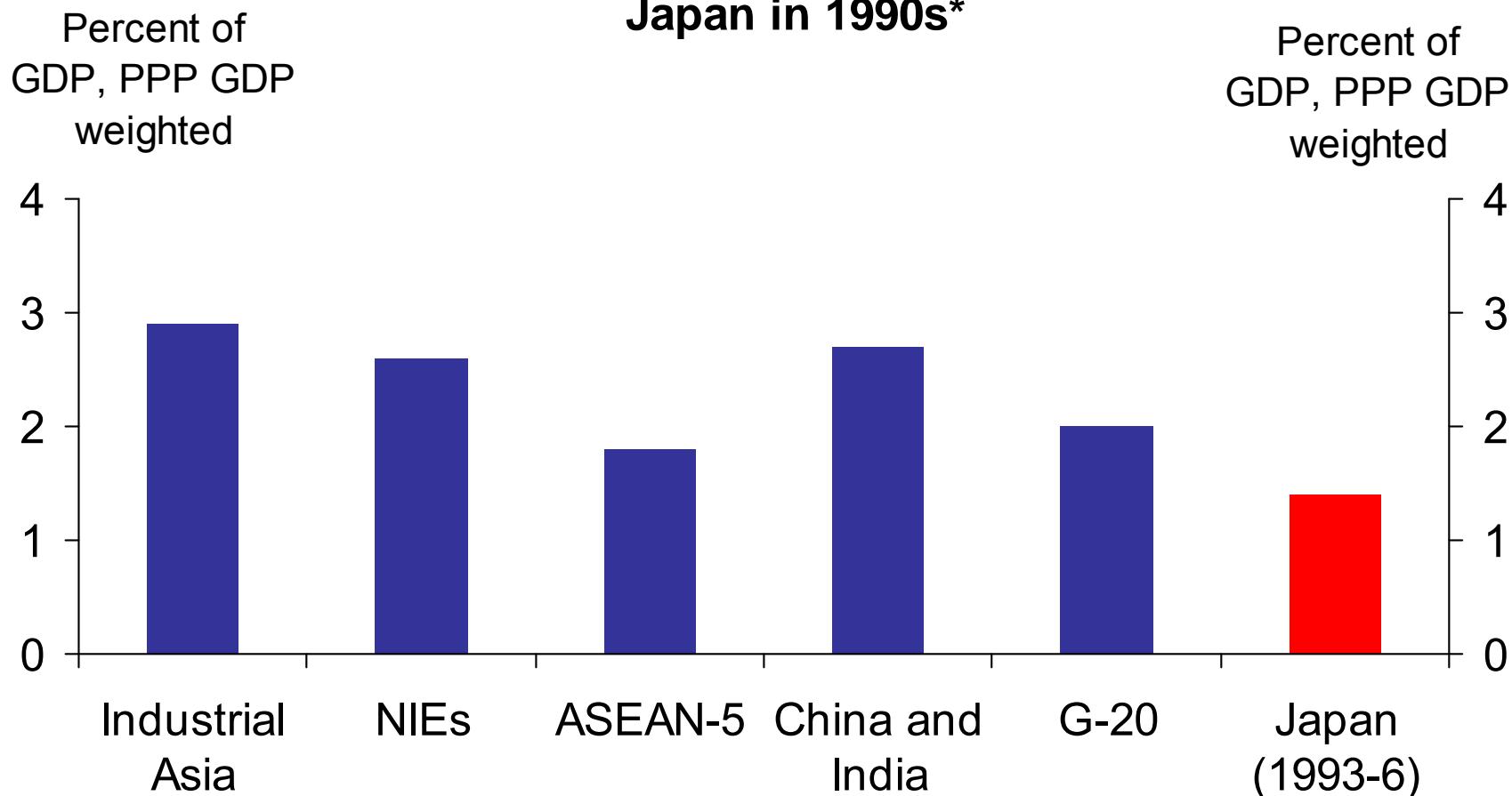
In 2003, investment picked up once corporate deleveraging had begun. Seeing the same pattern today with a lag





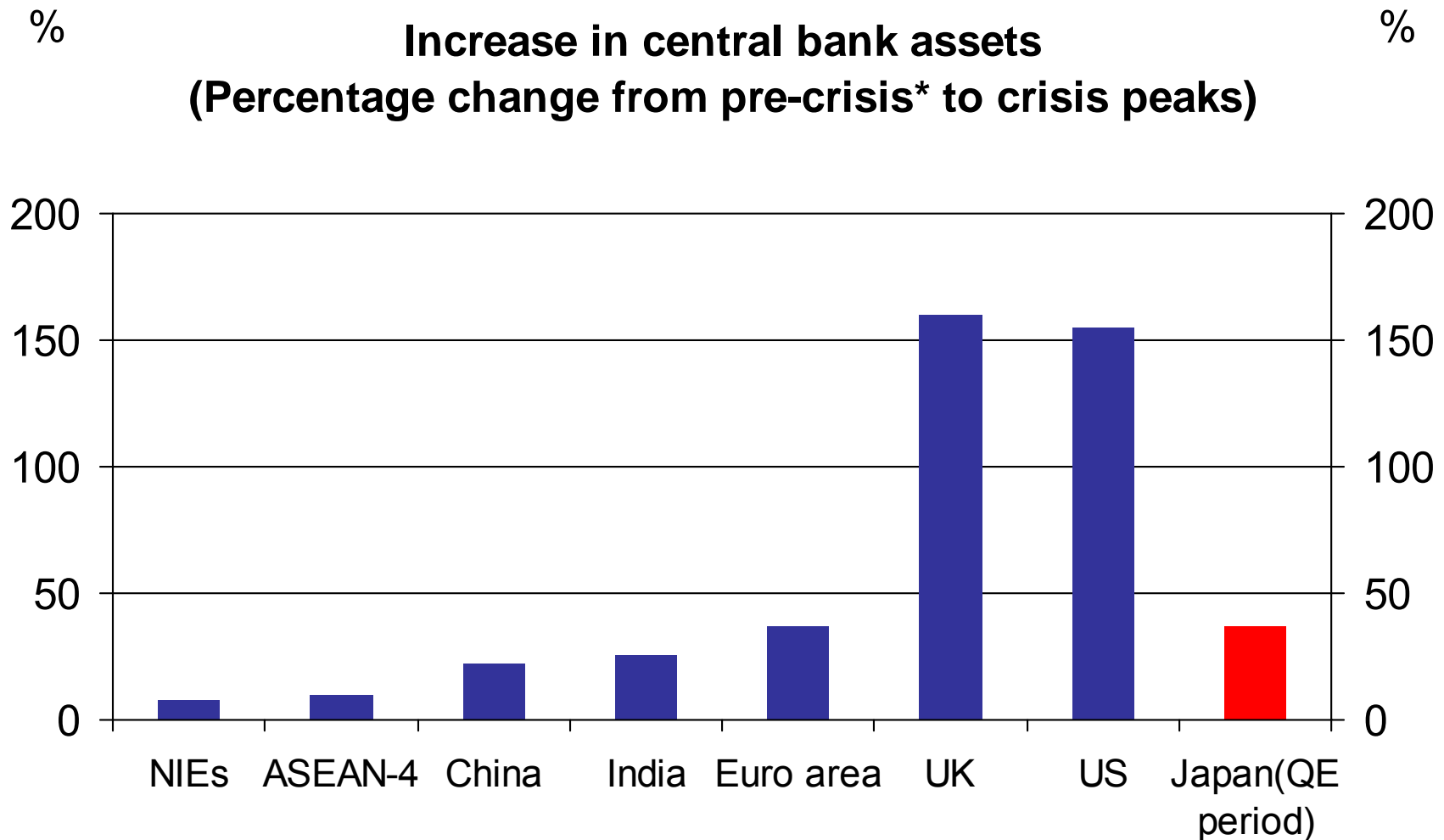
# Japanese fiscal policy response in the 1990s was smaller

## Discretionary fiscal measures, 2009 compared to Japan in 1990s\*



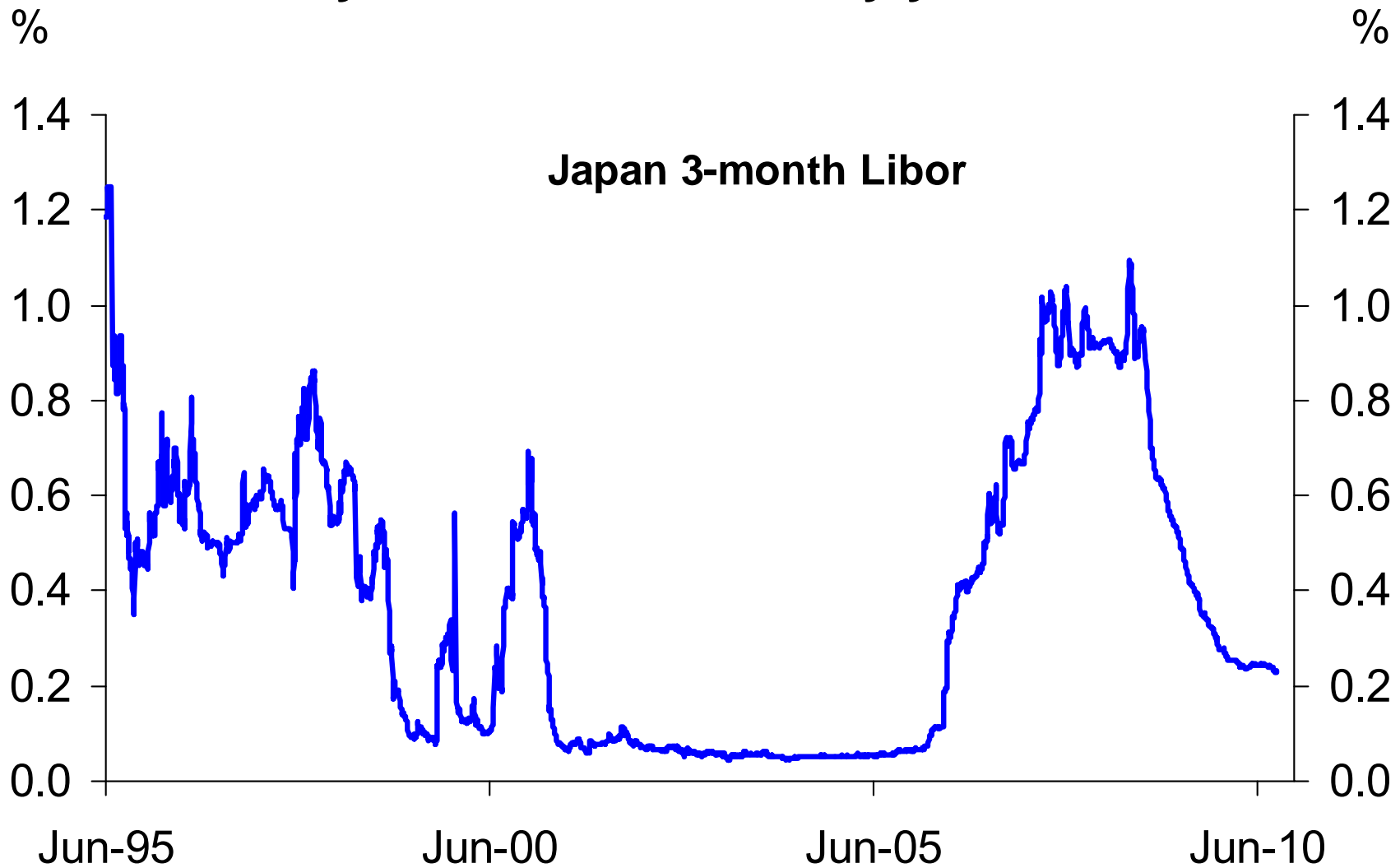
\*Defined as fiscal impulse in each year (yearly changes in structural fiscal balances related to measures taken in response to the crisis)

# Japan's 1990 monetary policy response was modest

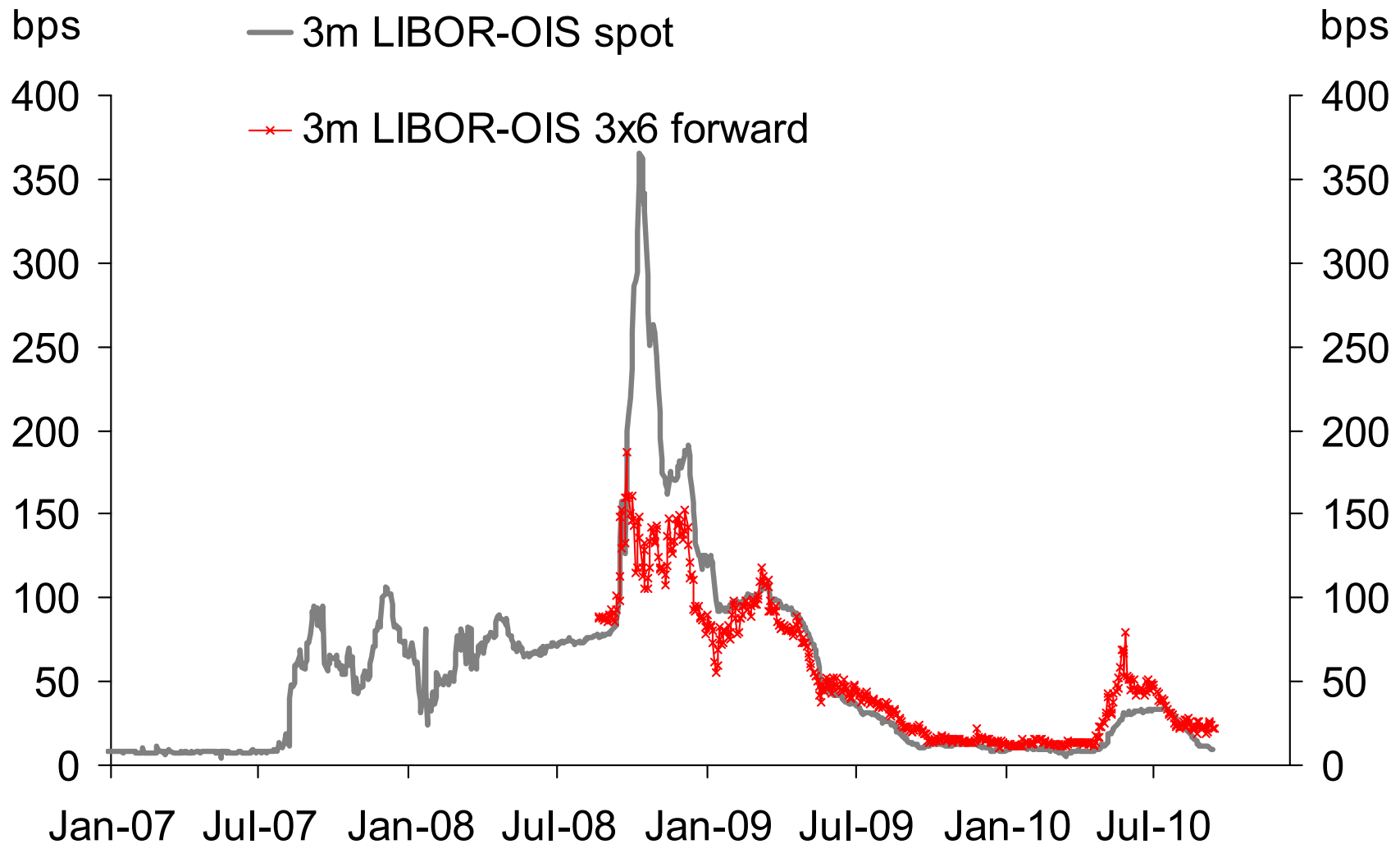


\* Pre-crisis refers to March-01 for Japan, Dec-07 for all others

# The premium in the Japanese banking system lasted for many years

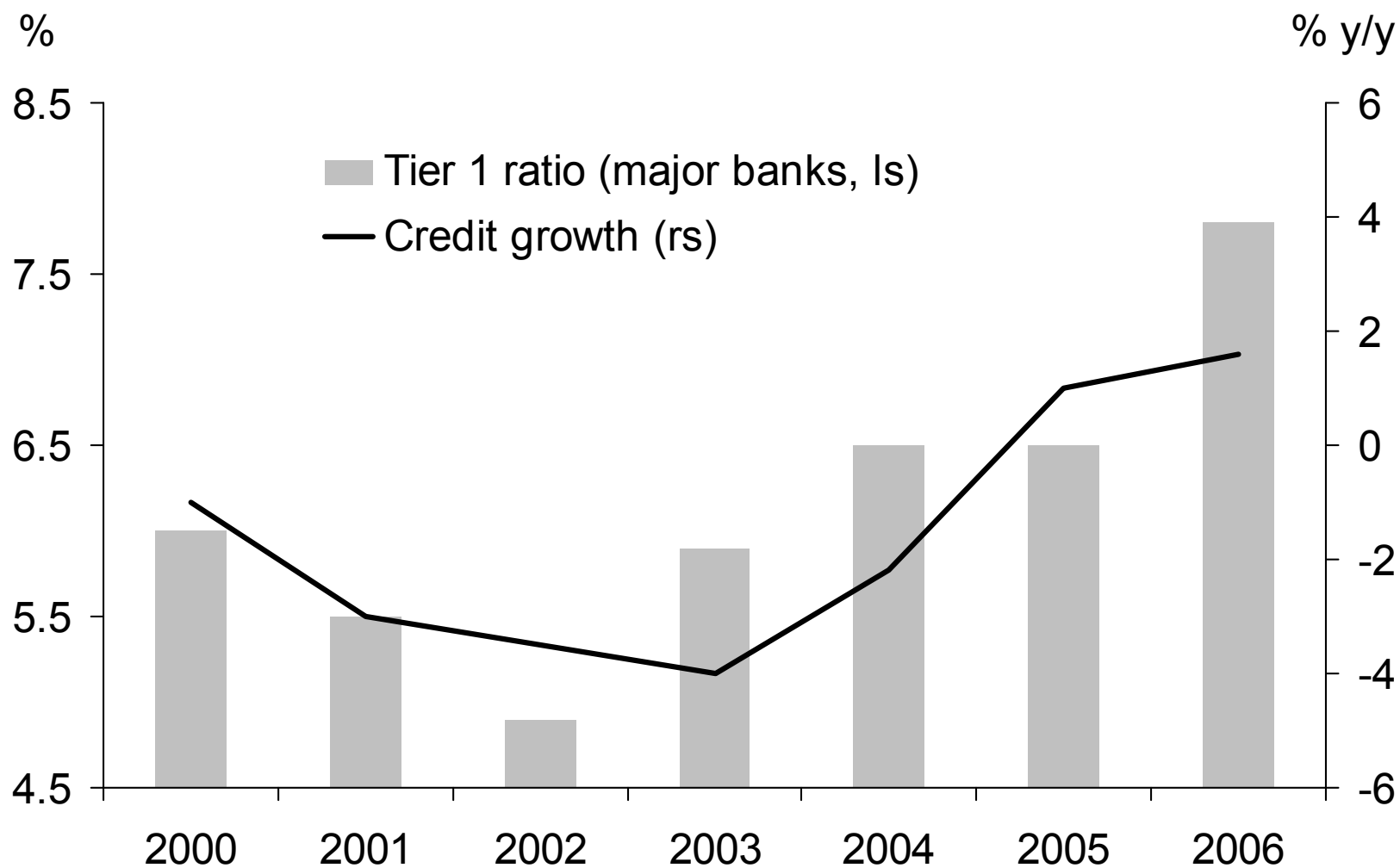


# The premium in the US banking system has been less permanent





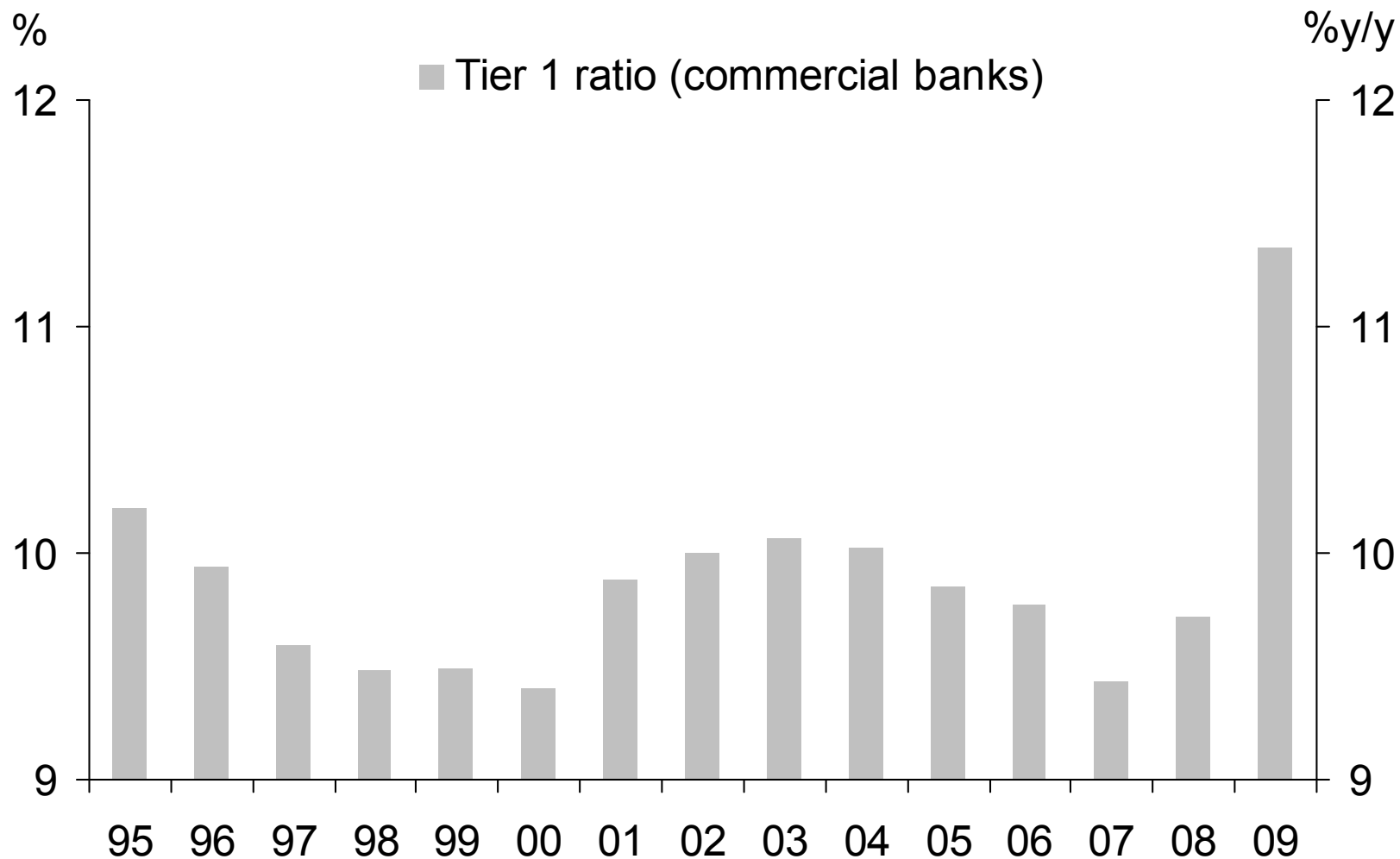
## Japan: lending growth turned once banks were re-capitalized







## US: Tier 1 ratio moving up





# Comparing the resilience of the Japanese and US economies

## Comparing the resilience of the US and Japanese economies



- Labor market policies
- Taxation
- Product market regulation
- Human capital

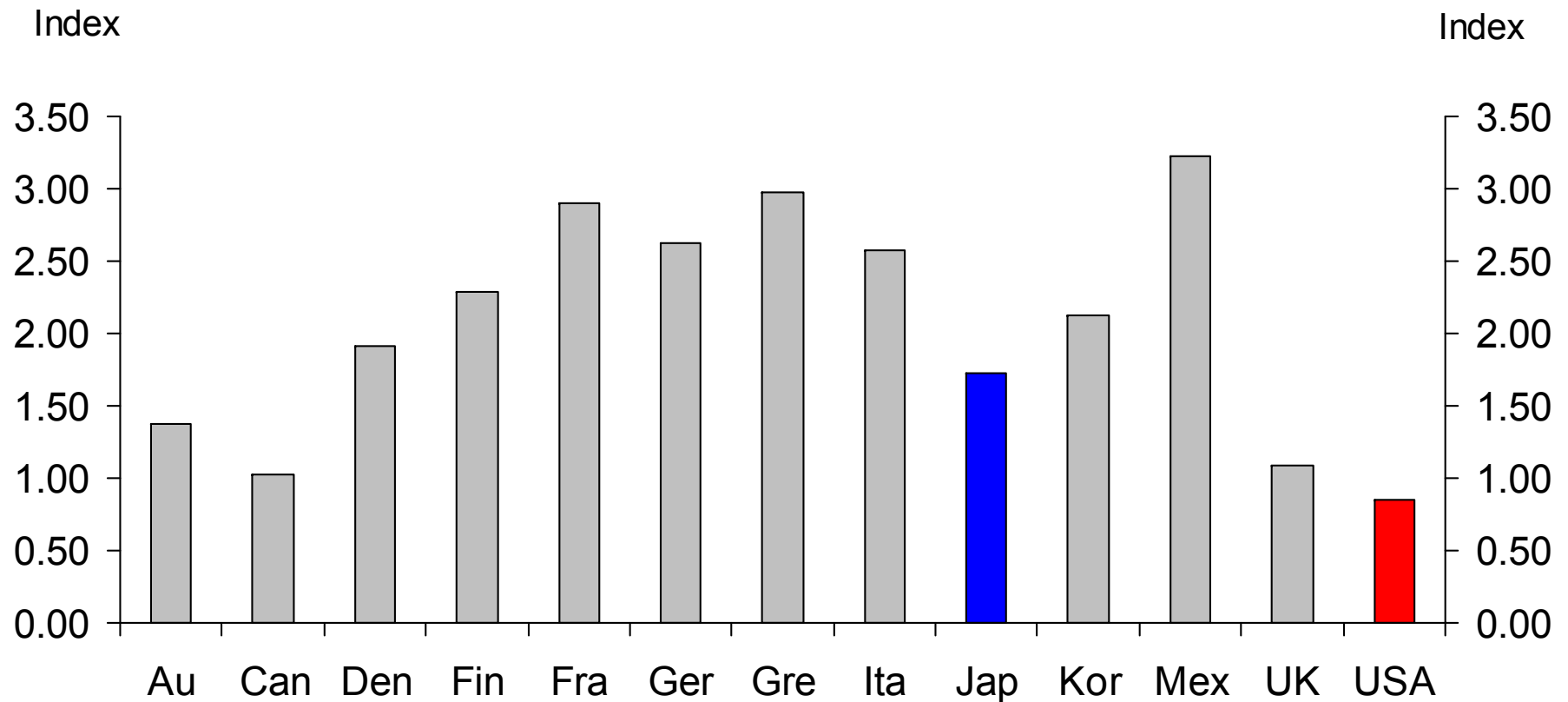


# Labor market policies

# US has the most flexible and resilient labor market



## OECD employment protection index in 2008

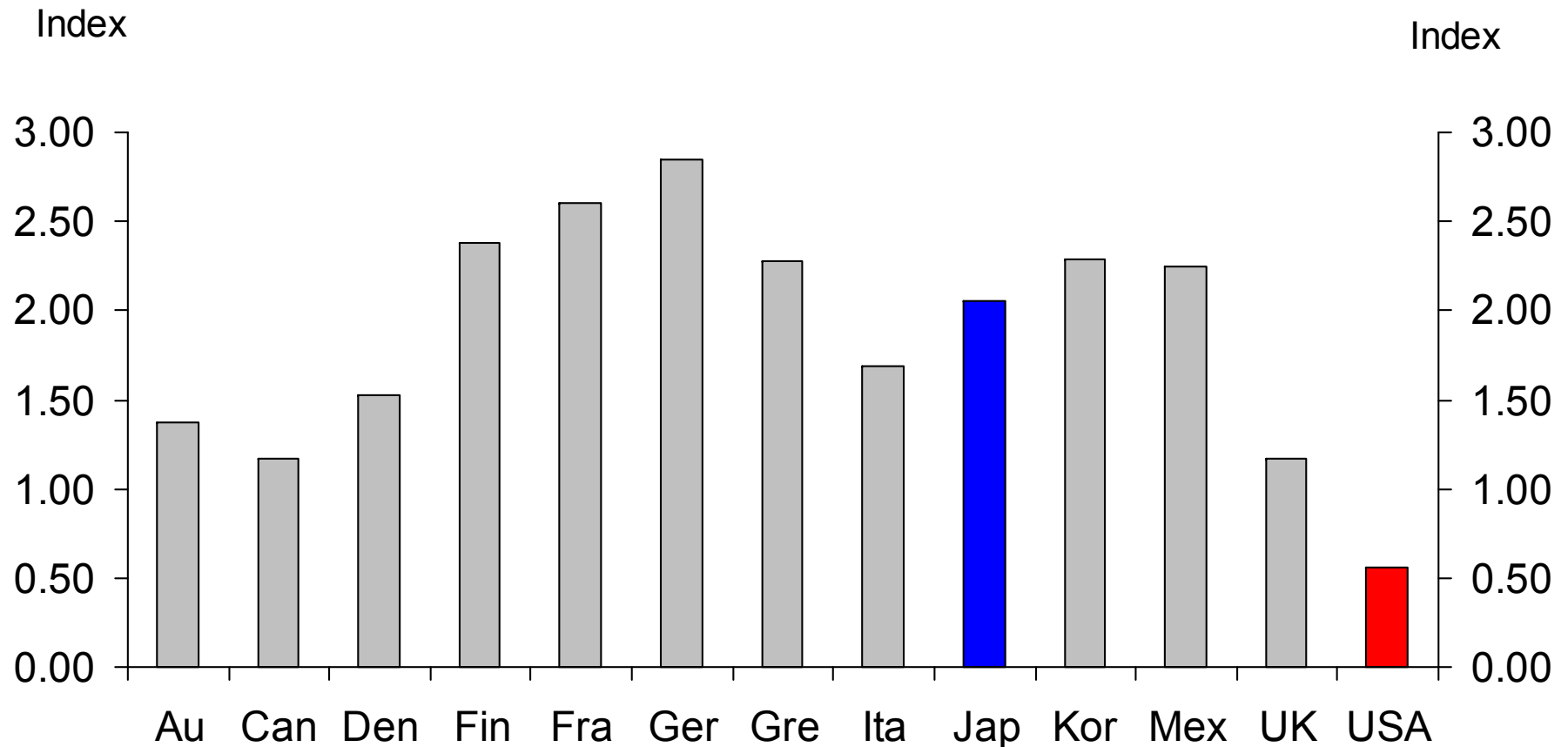


Note: The index goes from 0 – 6, where zero is the least restrictive

# Difficult to fire workers in Japan



## Protection of permanent workers against dismissal in 2008

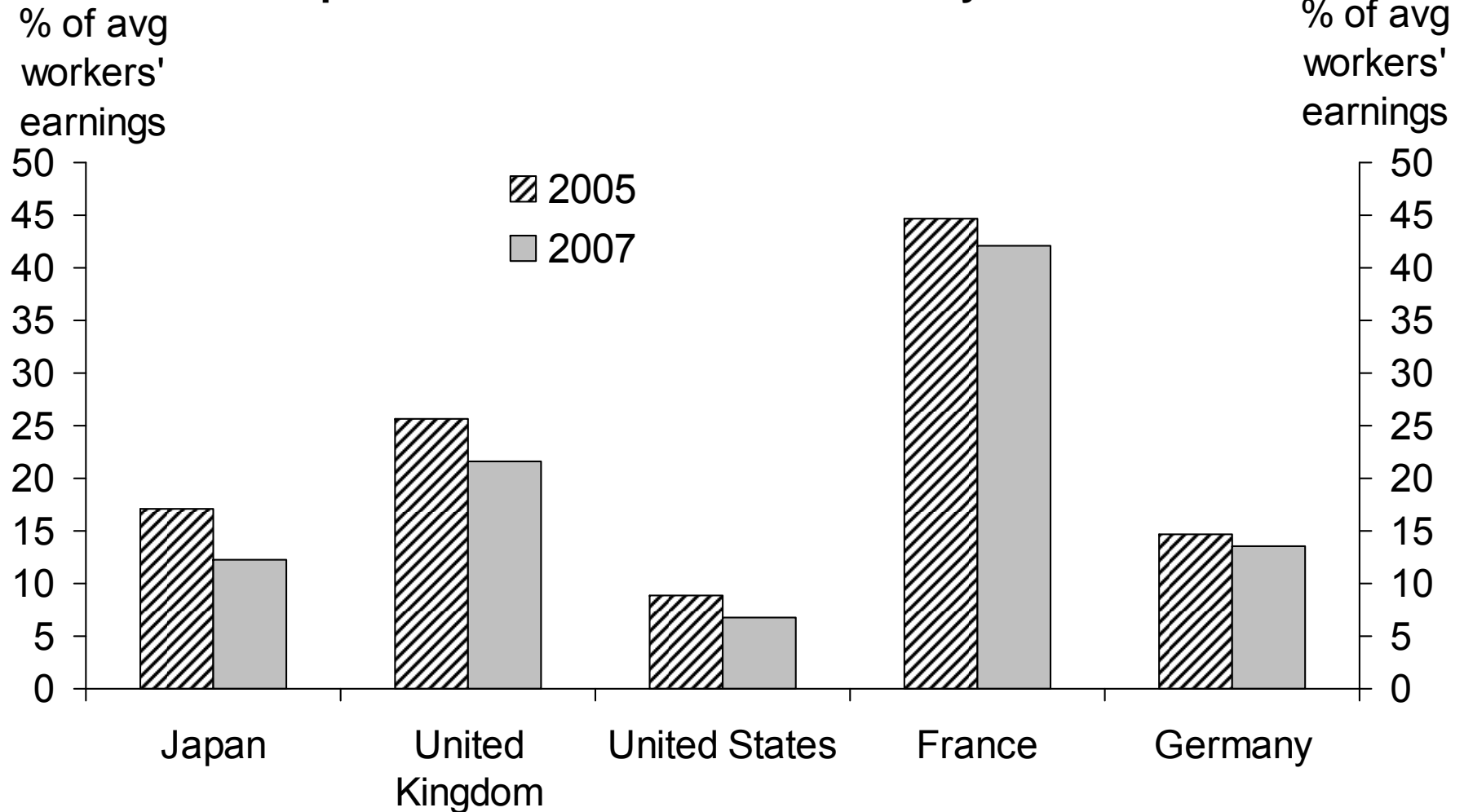


Note: The index goes from 0 – 6, where zero is the least restrictive

# Incentives to stay in the labor force in the US



## Implicit tax on continued work: early retirement





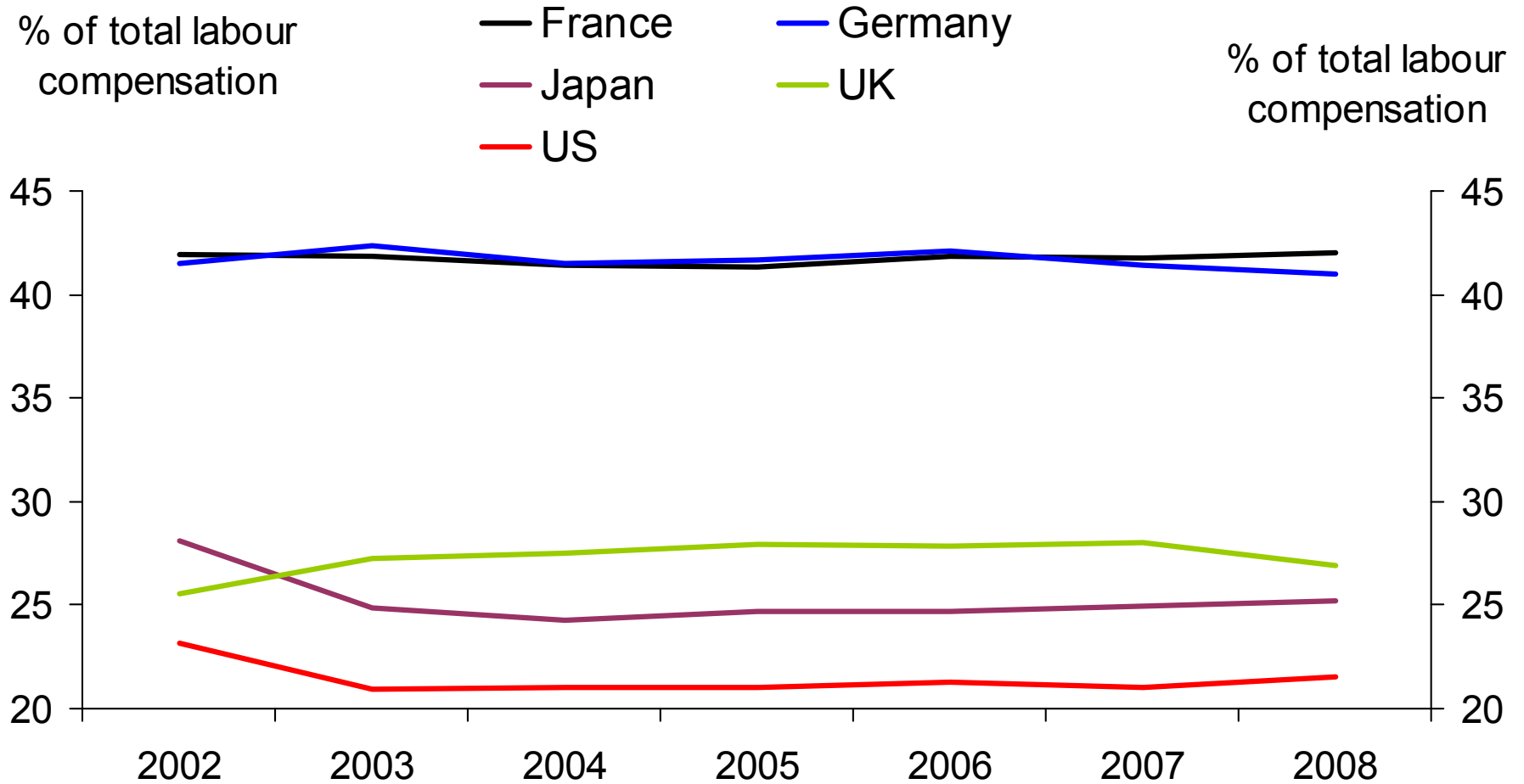
# Taxes



# US average taxes lower



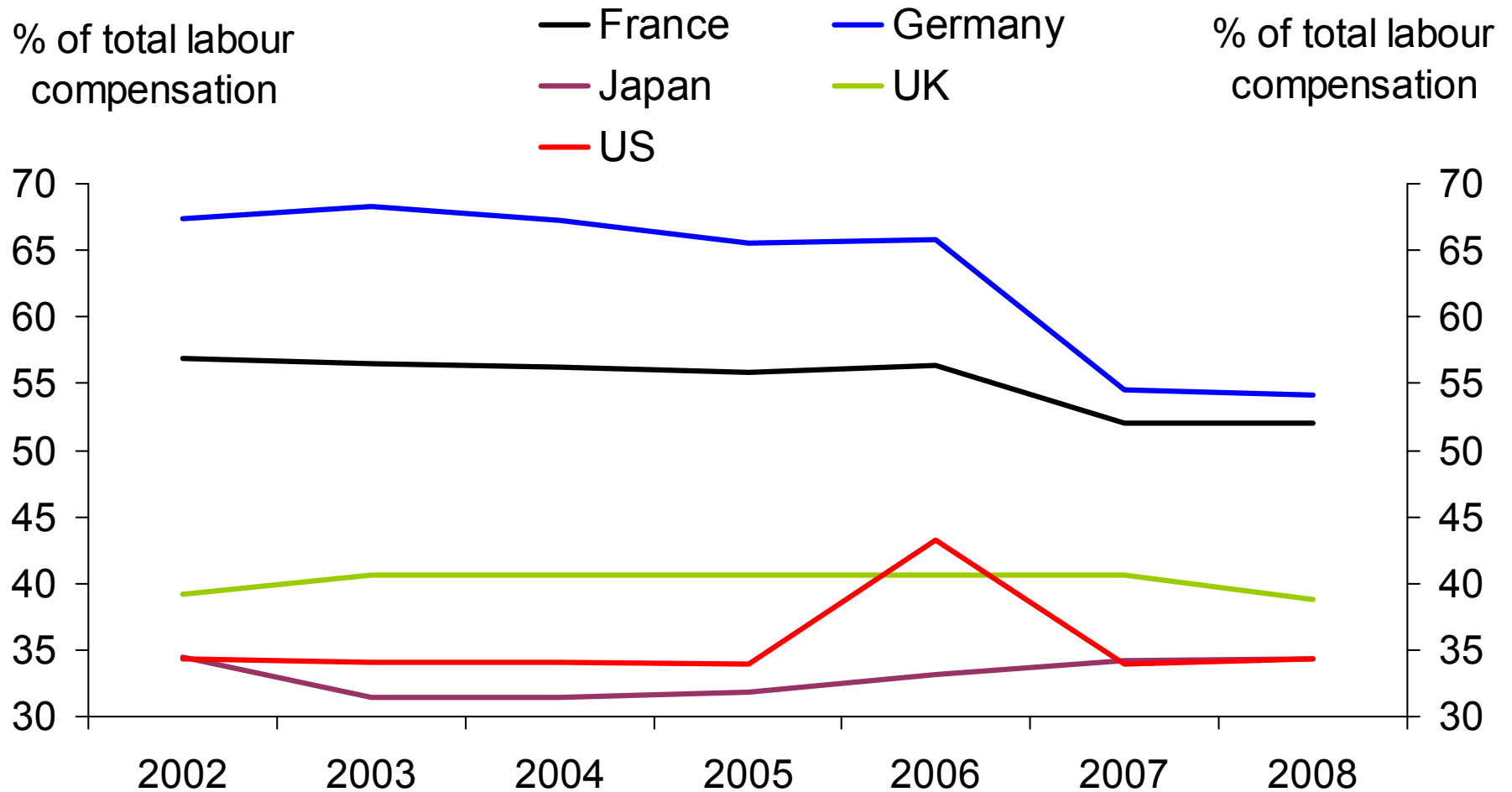
## Average tax wedge on labour



# Marginal tax rates roughly the same in US and Japan



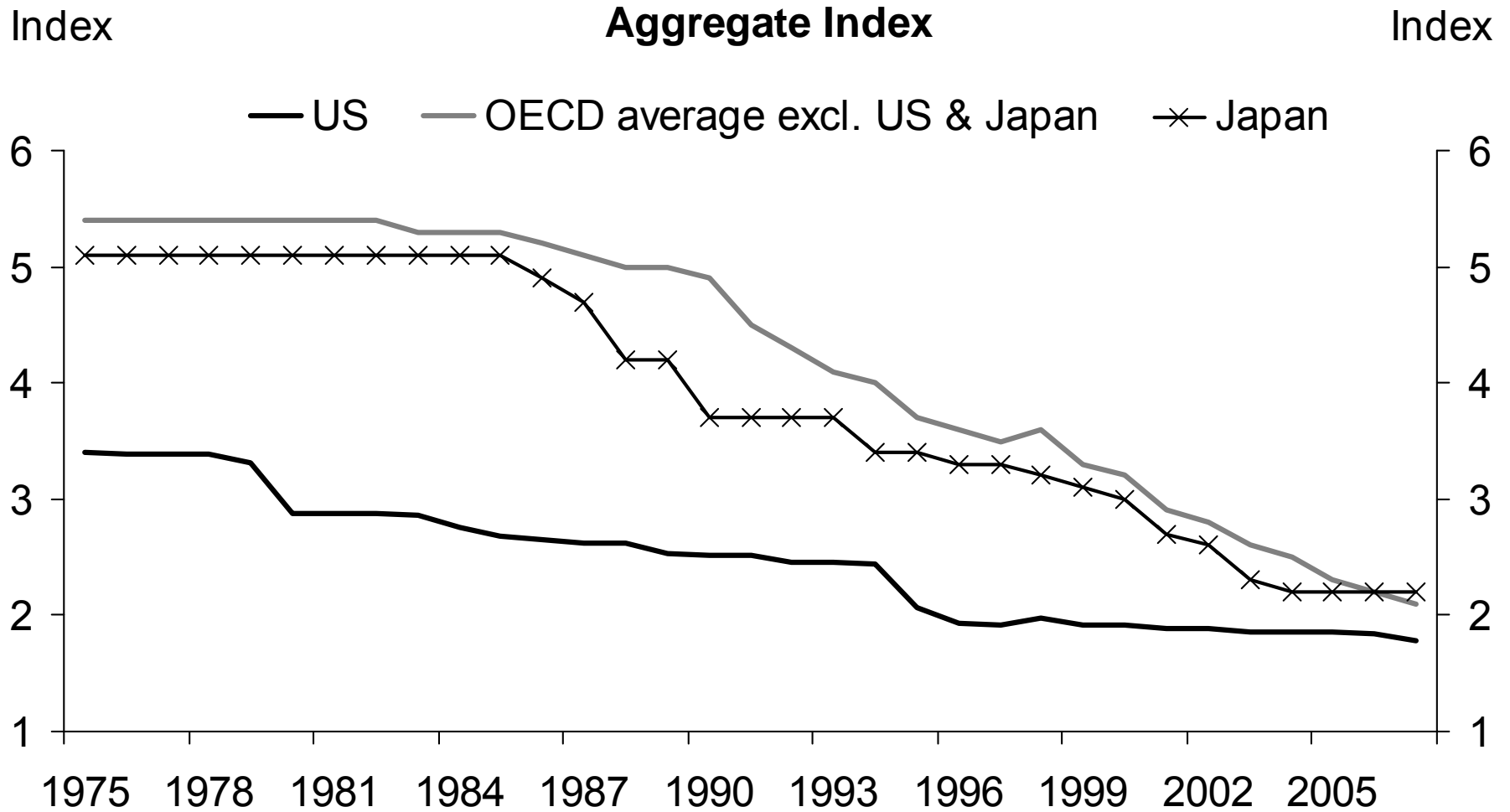
## Marginal tax wedge on labour





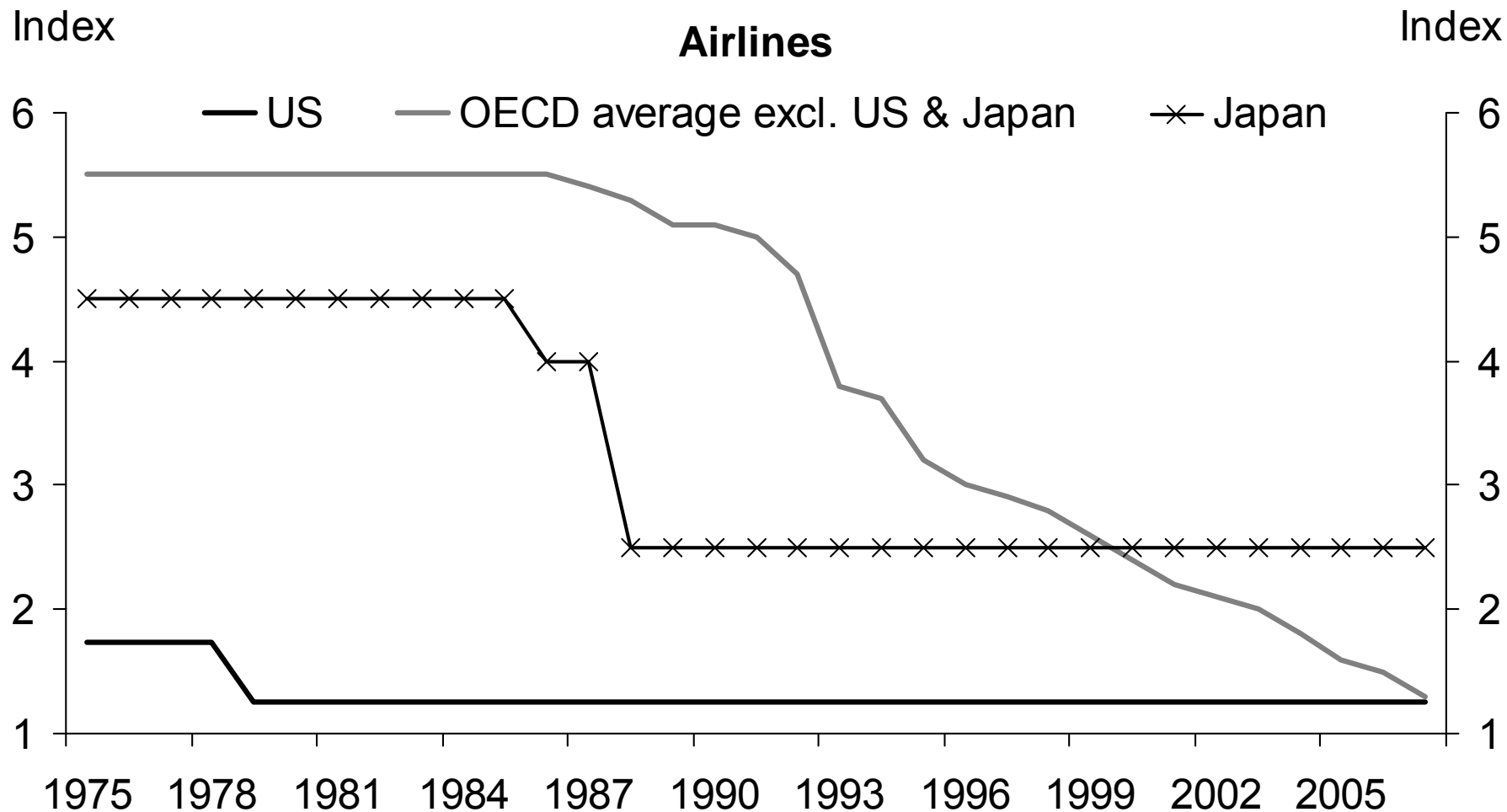
# Product market regulation

# Japan generally more regulated than the US



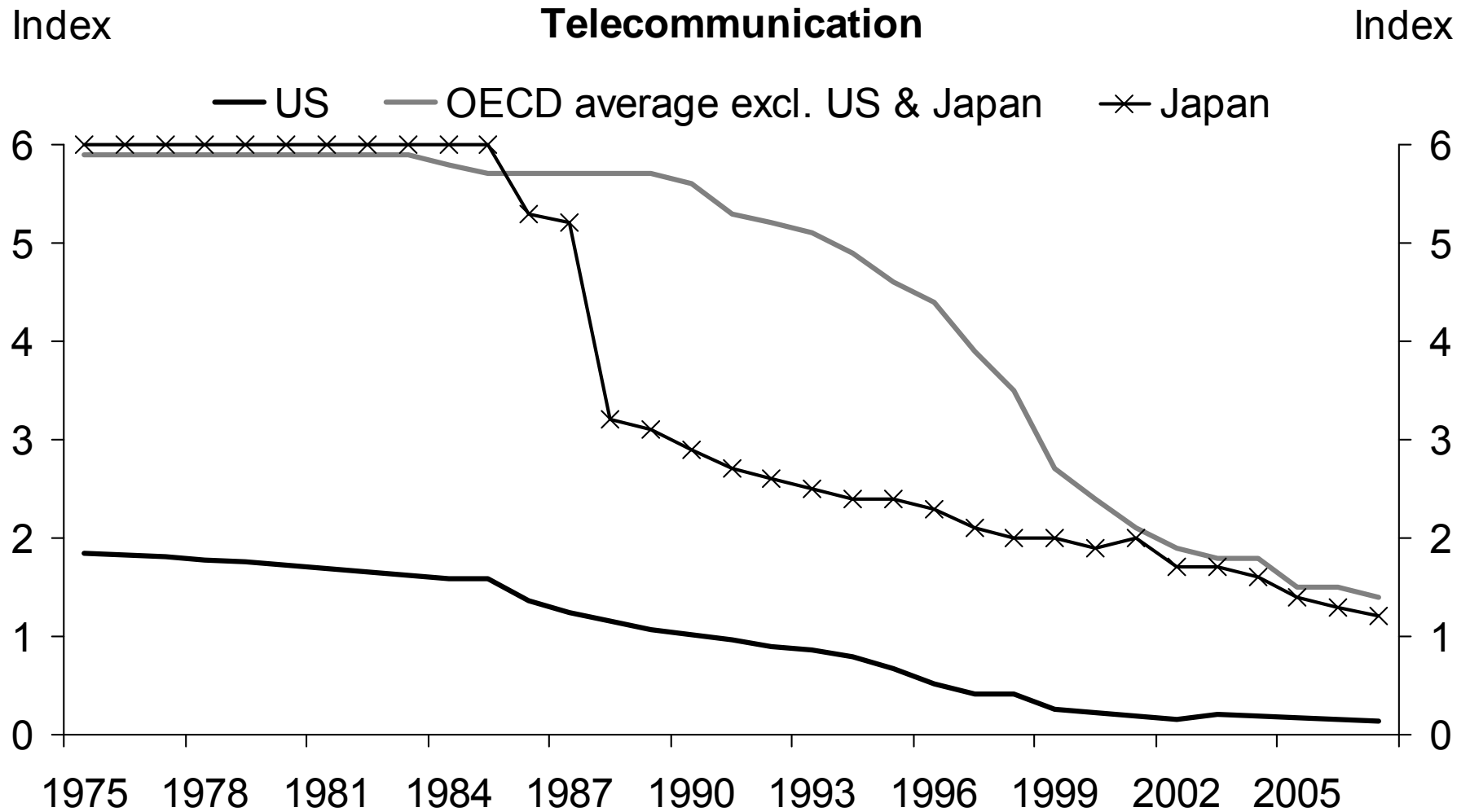
Note: The index goes from 0 – 6, where zero is the least restrictive

# Some industries were highly regulated in Japan



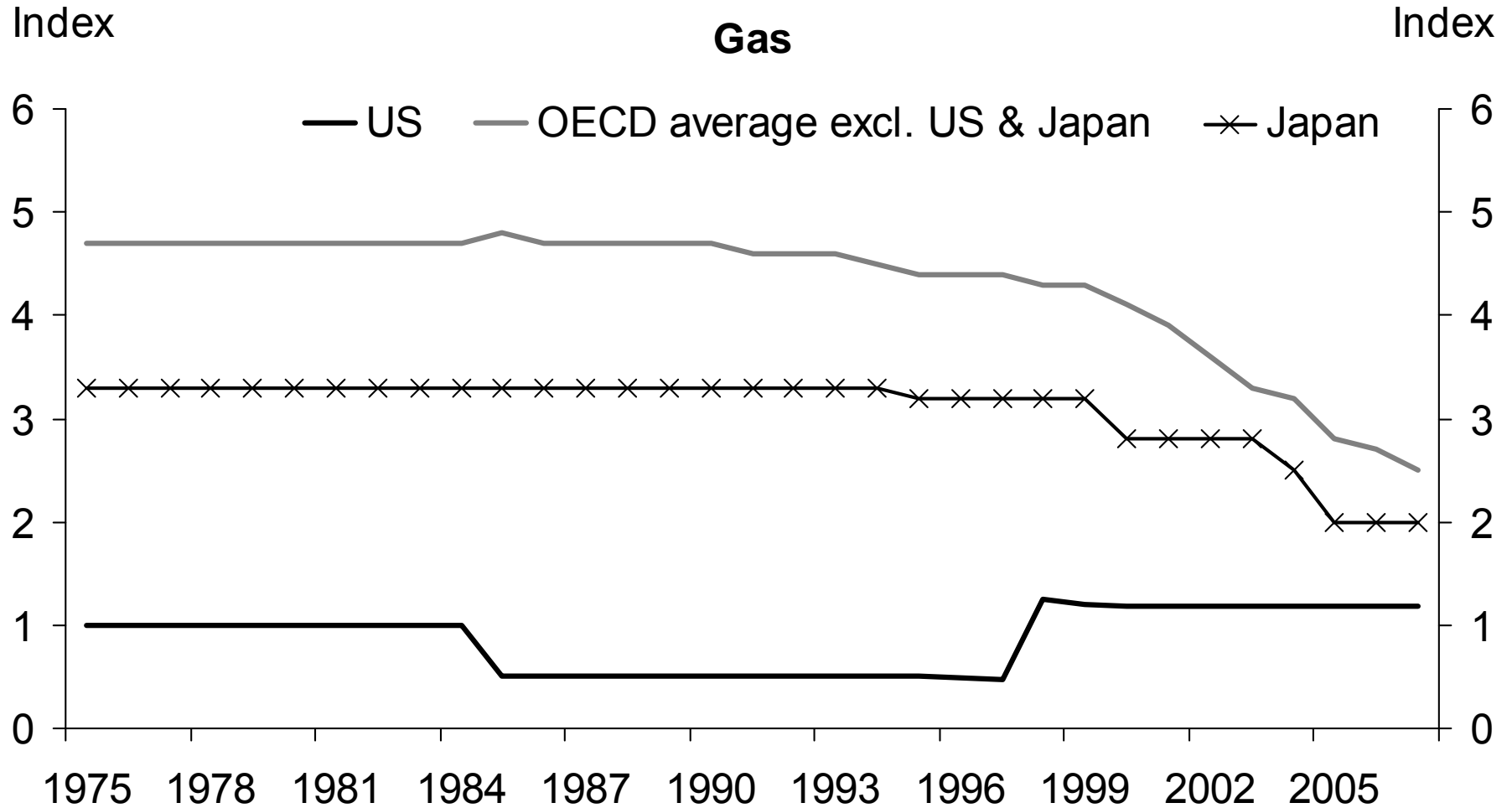
Note: The index goes from 0 – 6, where zero is the least restrictive

# Some industries more regulated in Japan



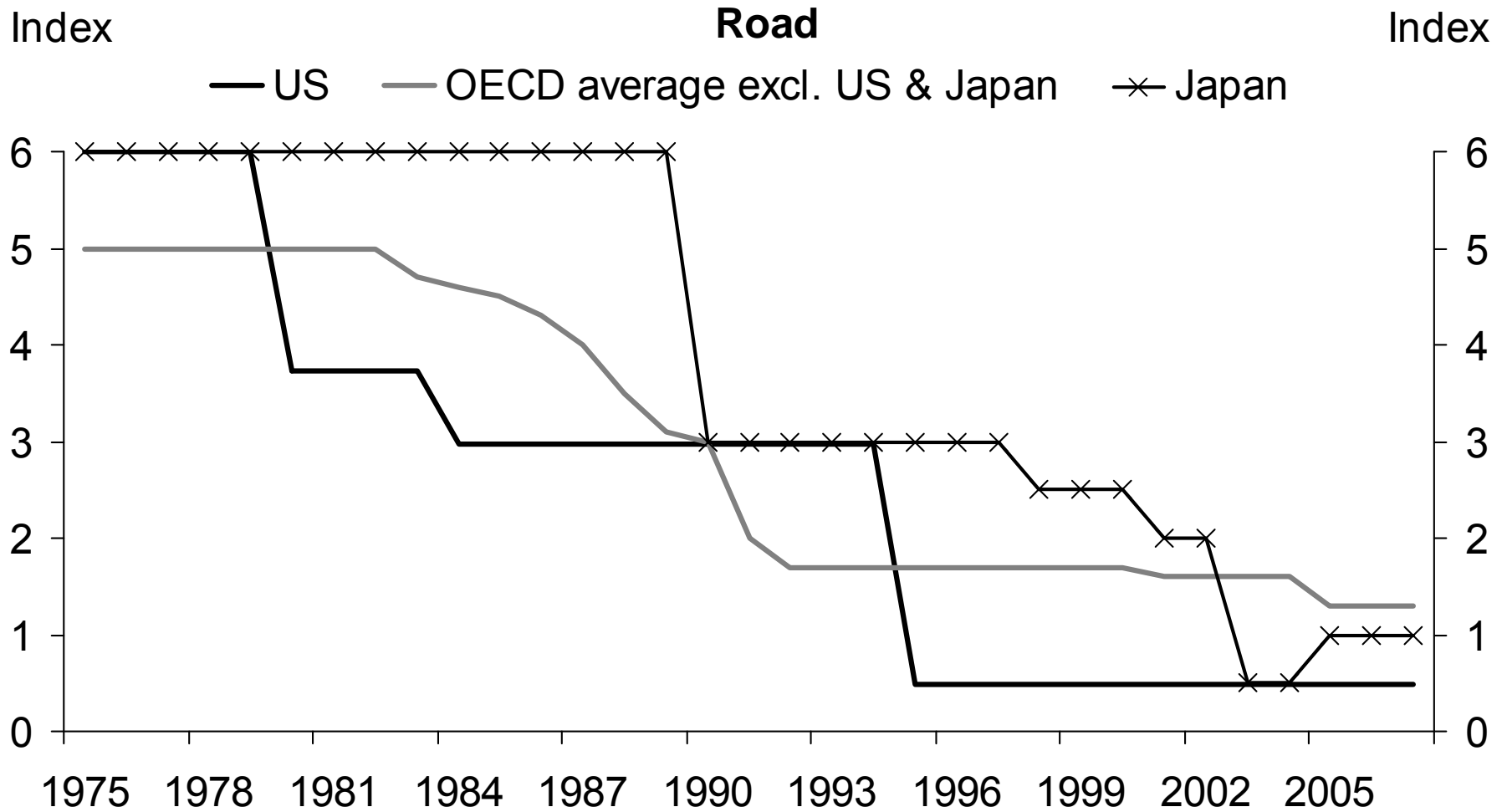
Note: The index goes from 0 – 6, where zero is the least restrictive

# Industries more highly regulated in Japan



Note: The index goes from 0 – 6, where zero is the least restrictive

# US transportation also more competitive



Note: The index goes from 0 – 6, where zero is the least restrictive





# Human capital

## US workers have more education



<b>Average years of schooling weighted by proportion of the population participating in different levels of education in 2004</b>	
	<b>25-64 year old population</b>
<b>Germany</b>	<b>13.4</b>
<b>U.S.</b>	<b>13.3</b>
<b>United Kingdom</b>	<b>12.6</b>
<b>Japan</b>	<b>12.4</b>
<b>France</b>	<b>11.6</b>

## US has higher spending on education



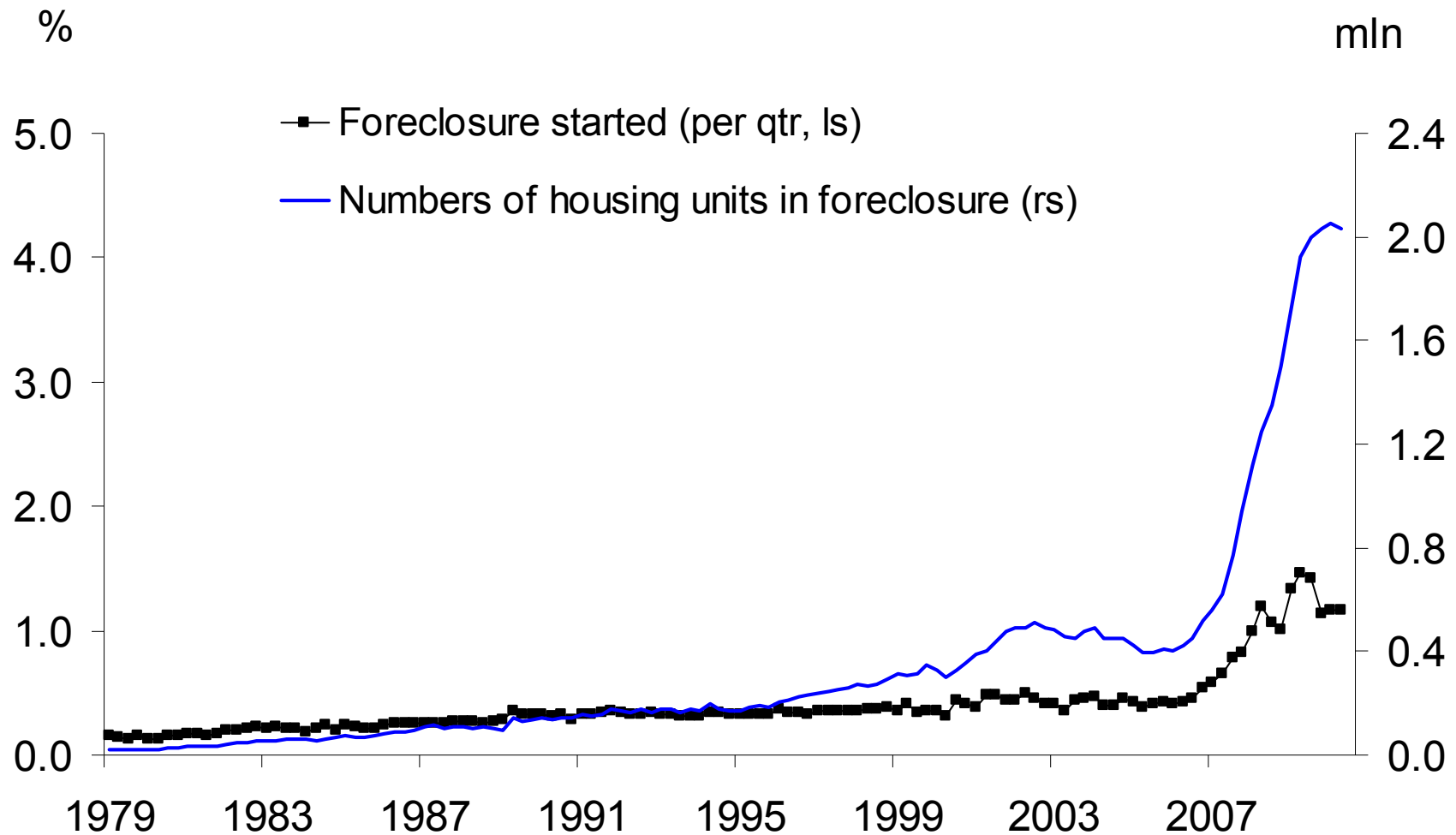
<b>Public expenditure on tertiary education in 2006</b>		
	<b>Expenditure as % of total expenditure</b>	<b>Expenditure as % of GDP</b>
<b>U.S</b>	<b>3.9</b>	<b>1.4</b>
<b>Germany</b>	<b>2.5</b>	<b>1.1</b>
<b>United Kingdom</b>	<b>2.4</b>	<b>1.1</b>
<b>France</b>	<b>2.3</b>	<b>1.2</b>
<b>Japan</b>	<b>1.7</b>	<b>0.6</b>



The imbalances in the US housing, banking, and household sectors – how far along have we come in the adjustment?

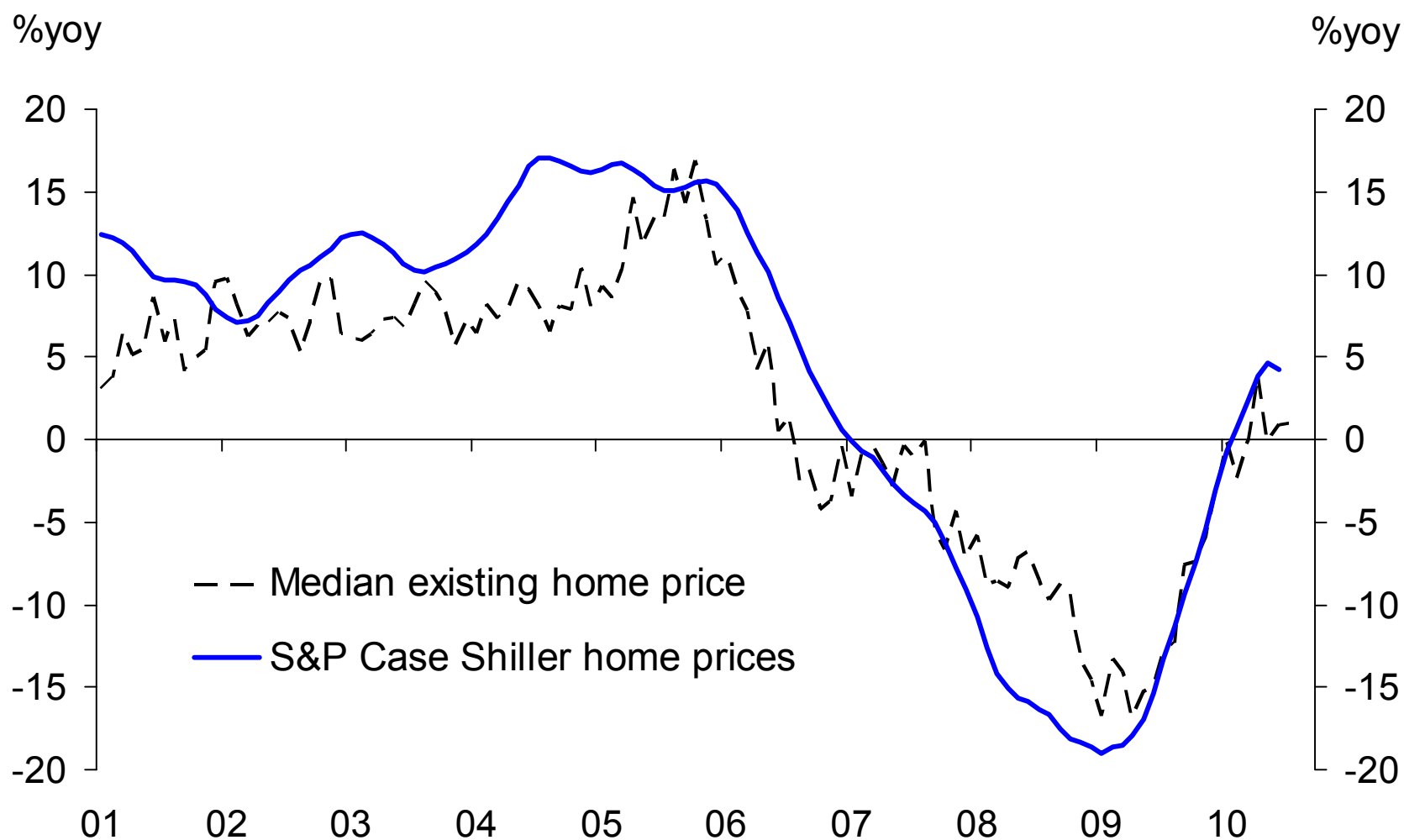
A year or two left? At least, 10 years seems very unlikely

# Home foreclosures starting to come down





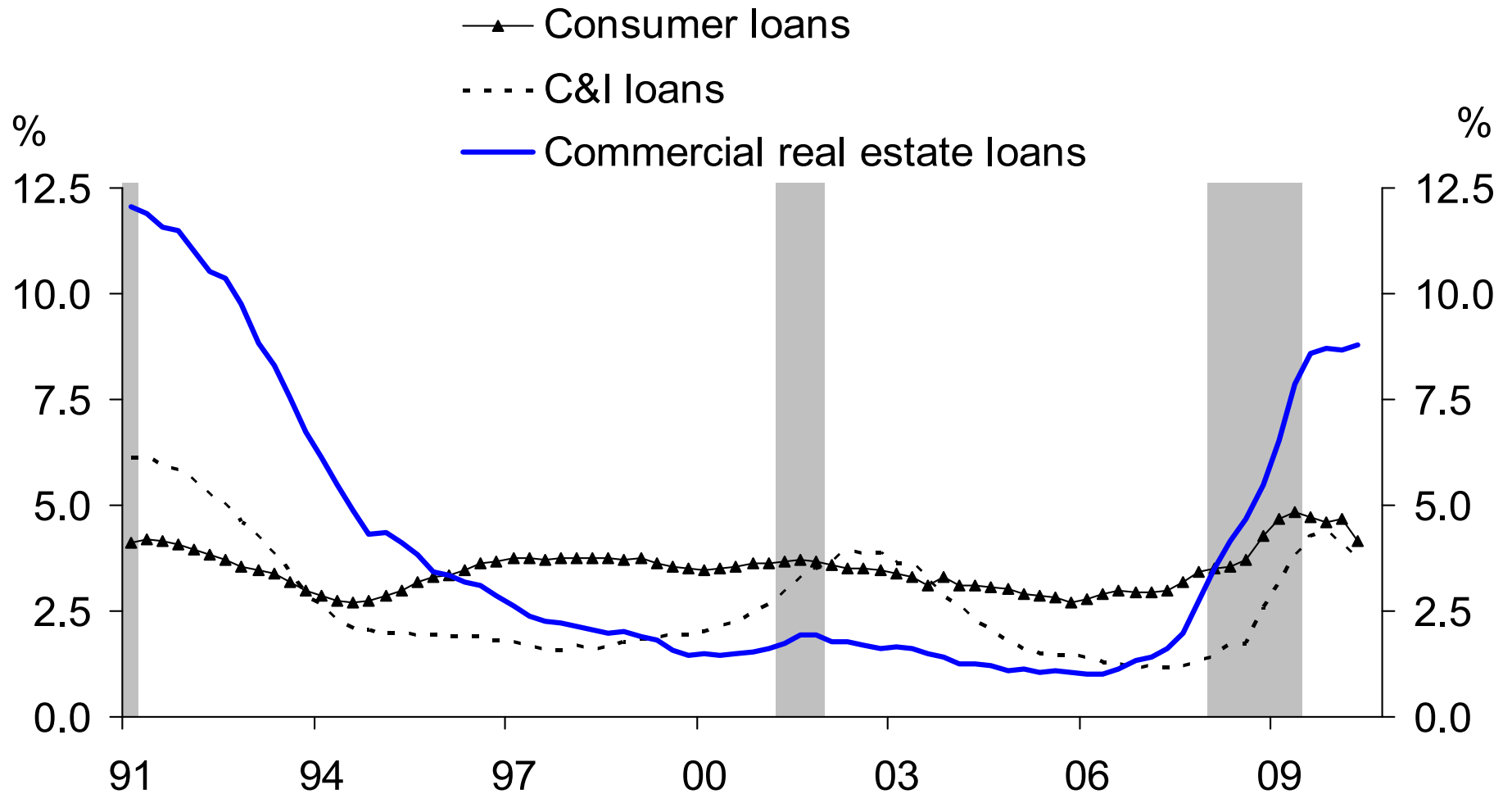
## Home prices no longer declining



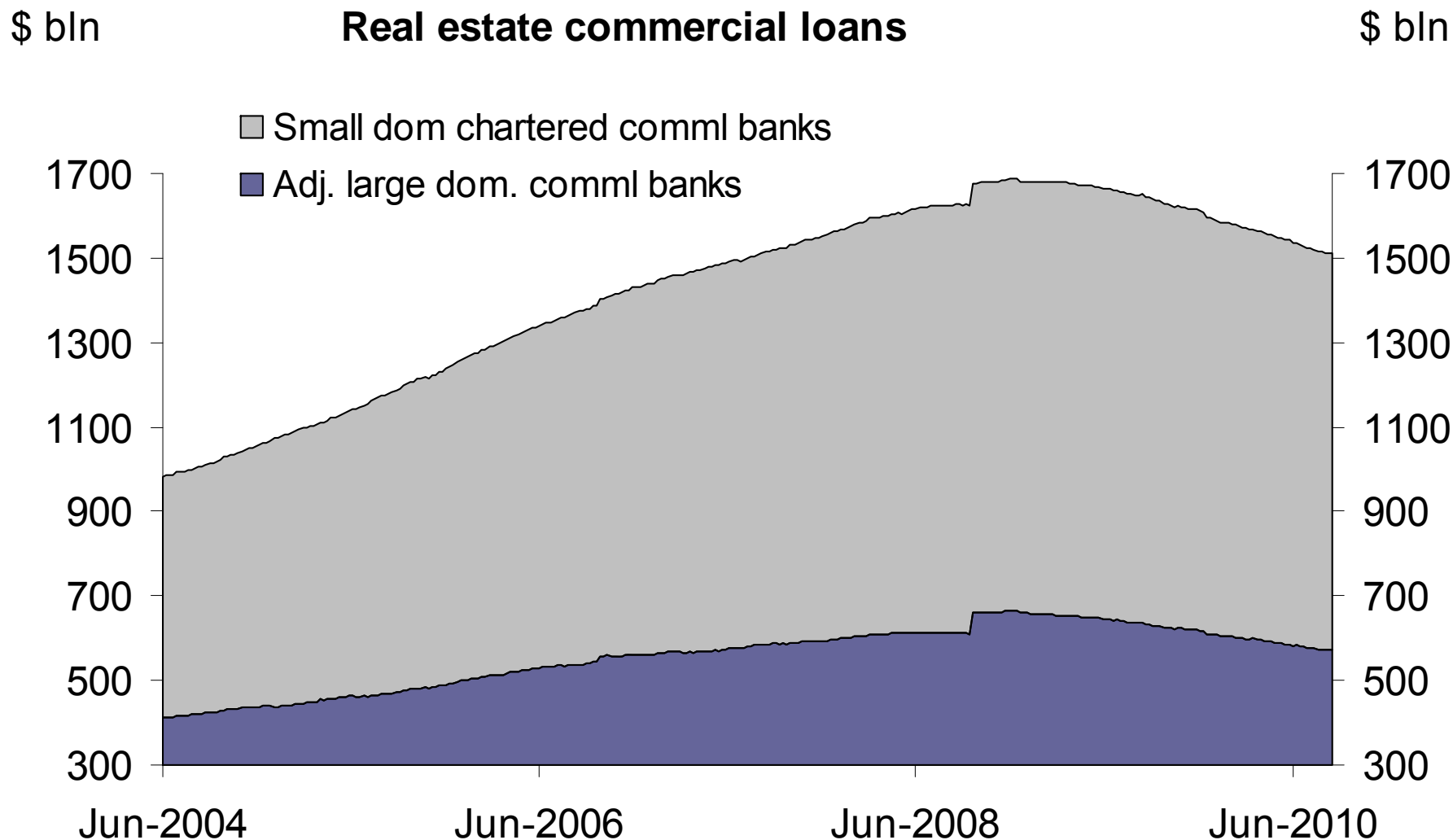
# Delinquency rates starting to peak



## Loan delinquency rate at commercial banks

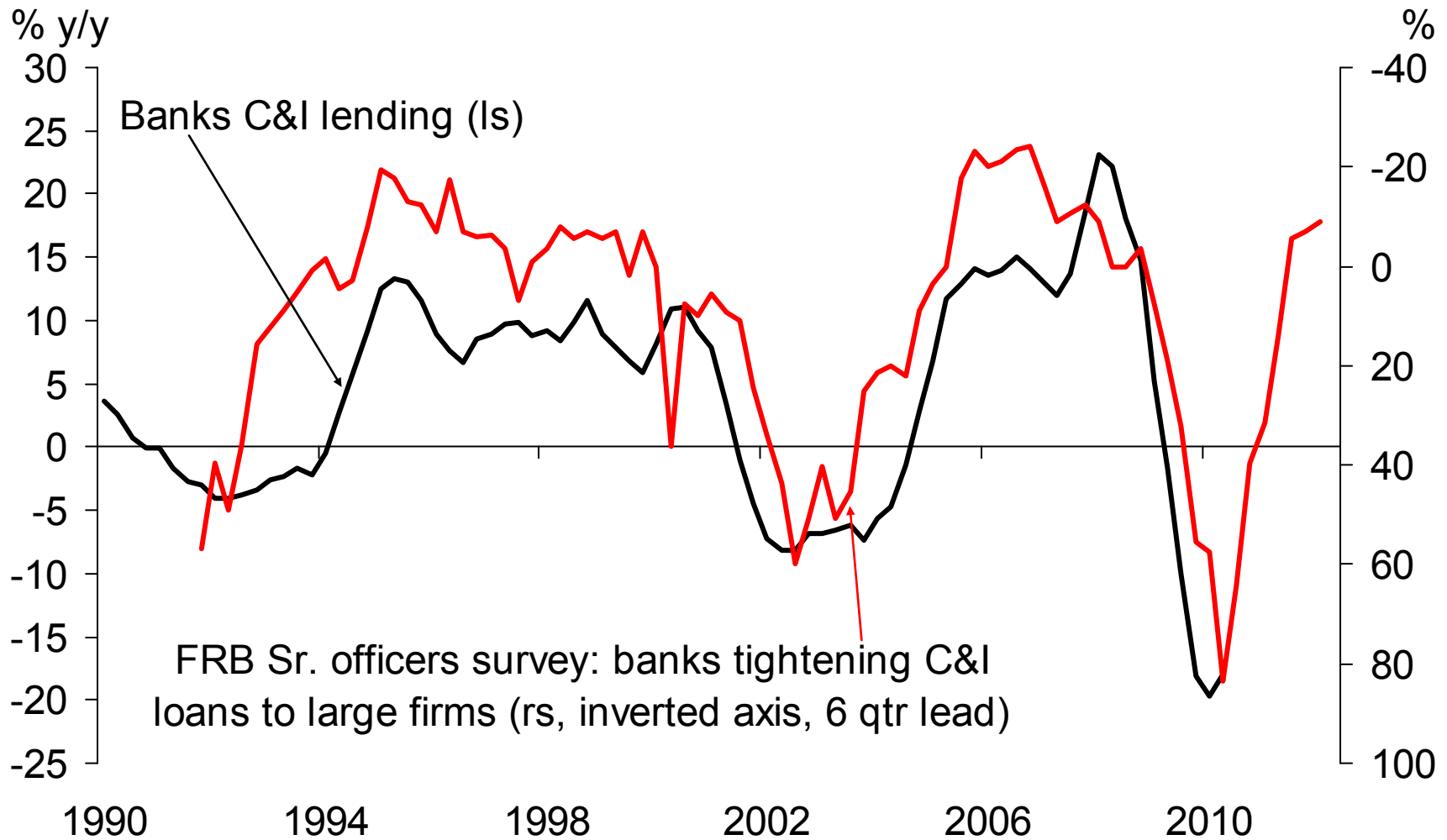


# Commercial real estate holdings starting to come down

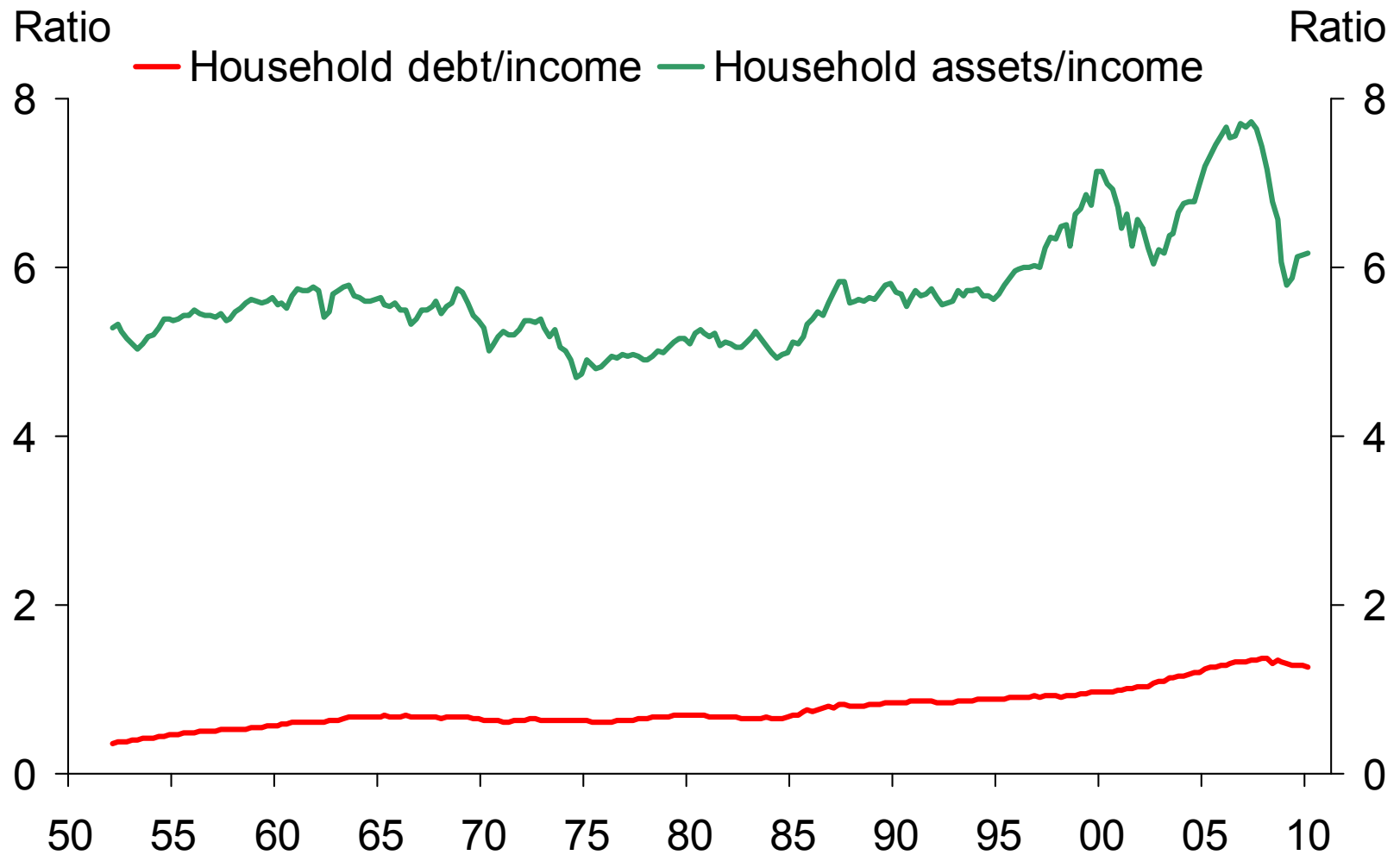




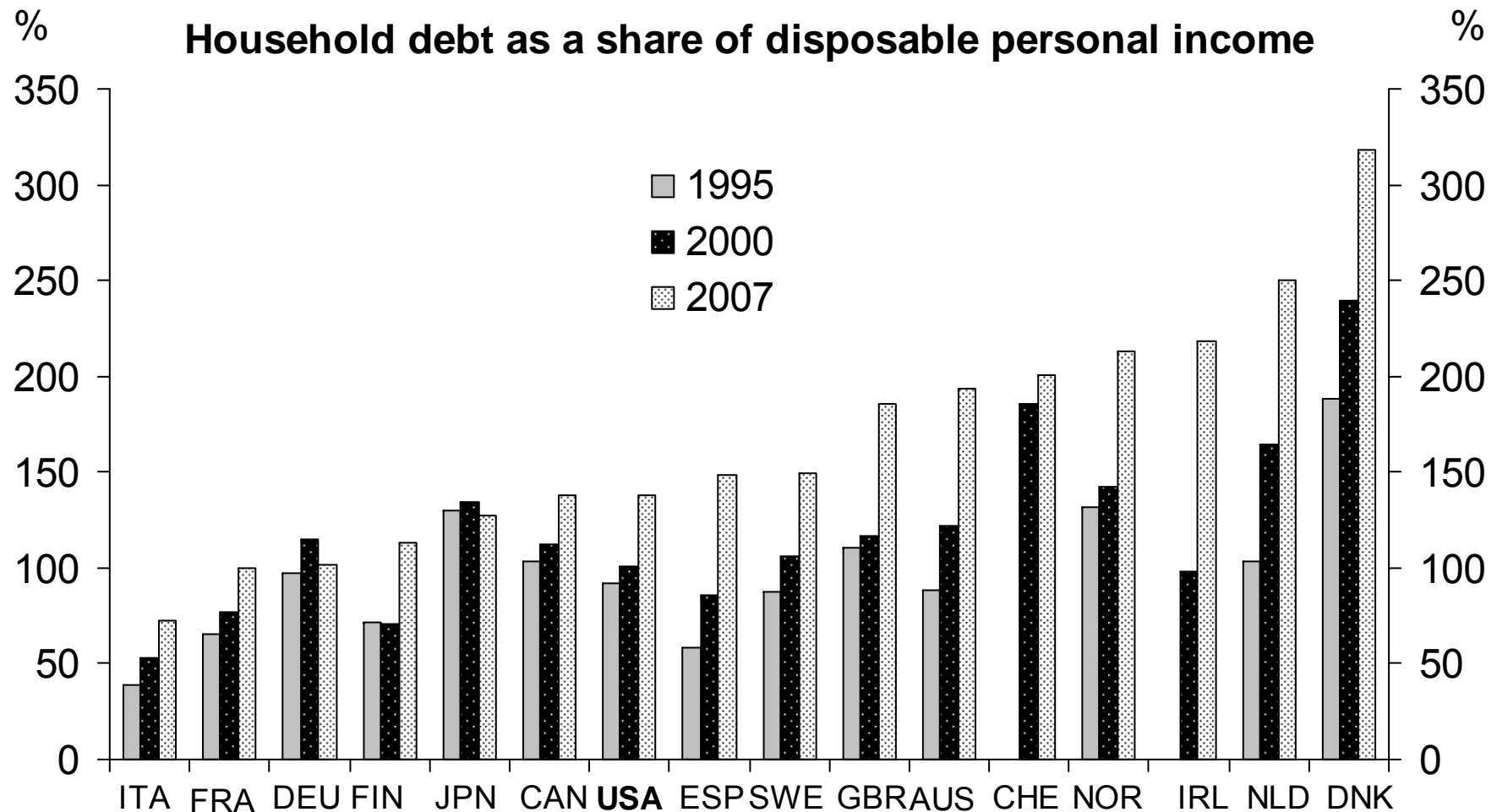
# Banks likely to stop deleveraging in 2011



# Cannot focus on household leverage alone



If you think US households have too much debt then what about the countries to the right in this chart?





# Conclusion

## Conclusion



- US policymakers acted faster and more aggressively than Japan in the 1990s
- US economy is more resilient than the Japanese economy
- Key question is when the ongoing adjustments in the housing, banking and household sectors are coming to an end. We probably have one or two years left – but not ten
- Bottom Line: The US is unlikely to experience a 10-year period with deflation



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- Torsten Slok joined Deutsche Bank Securities in the fall of 2005 and is a senior member of the Global Economics Team.
- Prior to joining the firm, Mr. Slok worked at the OECD in Paris in the Money and Finance Division and the Structural Policy Analysis Division. Before joining the OECD he worked for four years at the IMF in the Division responsible for writing the World Economic Outlook and the Division responsible for China, Hong Kong, and Mongolia.
- Mr. Slok studied at University of Copenhagen and Princeton University. He has published numerous journal articles and reviews on economics and policy analysis.



# Appendix 1

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