

# EAMONN FINGLETON'S LOST DECADE DEBATE

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In 1995, Irish journalist and author Eamonn Fingleton published a book called, *Blindside: Why Japan is Still on Track to Overtake the US by the Year 2000*, in which he contended that the commonly accepted view of an “economically dysfunctional” Japan in the wake of the Tokyo stock market crash was not only inaccurate, but contrived.<sup>1</sup> Ever since, Fingleton has relentlessly argued that on many accounts, the Japanese economy has continuously outperformed the US economy since the early 1990s, thus questioning the characterization of Japan’s economic performance from 1991-2001 as the “Lost Decade.” More provocatively, Mr. Fingleton asserts that a wide range of individuals and other entities — including foreign sales representatives, Japanese foundations, Japan’s Ministry of Foreign Affairs and even American investment bankers — stood to benefit from Japan’s “doom and gloom story” that was readily gobbled up and regurgitated by the “gullible” Western media. Fingleton has written numerous articles on these matters, and has even publicly challenged ten different individuals — whom he regards as the biggest promoters of the “Lost Decade” — to a one-on-one debate for which he will pay them \$10,000.<sup>2</sup> None of these individuals have accepted his offer, and since many aspects of Fingleton’s “Lost Decade Hoax” theory have remained unchallenged, they warrant serious evaluation and further discussion. The complexity of his overall argument demands a thorough assessment, and in an attempt to facilitate that assessment, this review aims to provide a broad overview of the debate to encourage further exploration.

Although the definition of Japan’s Lost Decade varies from source to

1 Eamonn Fingleton, “Sun Still Rising,” *The Prospect*, April 19, 2005, <http://prospect.org/article/sun-still-rising> (accessed March 3, 2012).

2 Eamonn Fingleton, “A \$10,000 offer for Robby Feldman and Ed Lincoln,” *Sandcastle Empire*, June 20, 2011, <http://www.fingleton.net/a-10000-offer-for-robbie-feldman-and-ed-lincoln/> (accessed March 5, 2012).

source, the general idea is that the Japanese economy in the 1990s shifted toward an extremely low growth trend caused by the bursting of speculative stock and real estate bubbles in the late 1980s. Subsequently, bad loans were issued for Japanese financial institutions, a credit crunch was generated, the assets of firms and households worsened and uninterrupted business failures were compounded by a vicious circle of asset deflation.<sup>3</sup> Fingleton does not completely dispute these assessments of the Japanese economy, but argues that their overall effects were often exaggerated. For example, despite all of the aforementioned problems, Japan made consistent improvements to its infrastructure and erected 81 high-rise buildings<sup>4</sup> in Tokyo since the Lost Decade began—more than any major city in the US during that time. Overall, Fingleton points out that other indicators more accurately reflect Japan’s economic strength, affluence and quality of life during the “Lost Decade; thus, he highlights a plethora of encouraging data during the purported Lost Decade to eschew the characterizations of Japan’s economy as a “basket case” or the “laughingstock of the business pages.” Japan’s average life expectancy at birth grew by 4.2 years between 1989-2009, indicating that the Japanese now typically live 4.8 years longer than Americans (mainly because of better healthcare). Moreover, Japan’s unemployment rate is considerably lower than that of the US. Since 1989, the yen has risen 87 percent against the US dollar and 94 percent against the British pound (although some of Fingleton’s critics cite the yen’s rise as evidence of a crippling deflationary trend in the Japanese economy).<sup>5</sup> Perhaps the data most favorable to Fingleton’s argument is that Japan’s current account surplus totaled \$196 billion in 2010, up more than threefold since 1989. In contrast, America’s current account deficit swelled to \$471 billion from \$99 billion in that same timeframe.

Nevertheless, one major reason that the 1990s are commonly labeled as a lost decade for Japan is because its economy was performing below maximum output. By simply using official gross domestic product data as a point of comparison between the US and Japan, the US has ostensibly outperformed Japan for many years. Yet on a per capita basis, Japanese and US economic performances are not far apart, and some economists have underscored the sta-

3 Makoto Itoh, *The Japanese Economy Reconsidered*, (New York: Palgrave, 2000), 76-109.

4 The definition for “high-rise building” is any building taller than 500 feet (152.4 meters)

5 John Tammy, “The Myth About the Myth of Japan’s Two Lost Decades,” *Forbes*, April 23, 2011 <http://www.forbes.com/sites/johntammy/2011/04/23/the-myth-about-the-myth-of-japans-two-lost-decades/3/> (accessed March 5, 2012).

tistical discrepancies between the two data sets due to US statisticians use of the so-called hedonic method of adjusting for inflation, which may artificially boost the nation's apparent growth rate.<sup>6</sup> Yet another important contrast is that income distribution is more equitable in Japan than in the US, highlighting the potential difference between how economies compare on paper versus assessing the quality of life for the citizens in each country.

Japan has also made important industrial advances during the Lost Decade. By establishing monopolistic leadership in areas of advanced manufacturing, especially in producers' goods such as materials, components and machine tools, Japan has made US industrial sectors and even the US military heavily reliant on essential technologies that Japan monopolizes. Some of these trends have been cause for a considerable amount of concern among some US citizens, businesses, industrial sectors and policymakers, which leads to the second half of Fingleton's theory.

Perhaps the most controversial aspect of Fingleton's argument is that the Lost Decade was actually a "hoax" concocted by the Japanese public relations program in order to fool the Western media and especially the American people. This exaggeration of the Lost Decade, in Fingleton's view, is mainly an attempt to deflect mounting criticism and alarm about America's rising trade deficits with Japan. Fingleton explains:

The upbeat propaganda of the 1980s had been intended primarily as a defense in dumping lawsuits. Thus the American media were induced to publish greatly exaggerated claims of Japanese productivity. After major American corporations laid off the factory workforces and switch to outsourcing, Japan's propaganda needs changed abruptly... America's trade deficits with Japan widened rapidly, prompting Washington to view Tokyo more and more as a power rival. In the new circumstances, Japan's old super-economy image was not so much an irrelevance as a liability. Washington's mood softened remarkably, however, after the Tokyo stock market crashed in 1990. Assuming quite wrongly that the crash signified fundamental problems in Japan, Washington began expressing gentlemanly concern for the 'fallen giant.'<sup>7</sup>

6 In this context, hedonic accounting refers to the way that statisticians account for inflation when measuring the GDP. Hedonic accounting makes the rate of inflation look lower than it actually is, which mas-sages GDP figures upwards. Fingleton argues that the difference between US and Japanese GDP accounting methods during the "Lost Decade" distorts comparative GDP analyses between the two countries.

7 Fingleton, "Sun Still Rising."



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Fingleton goes on to claim that in the early 1990s, homeless people were encouraged to come out of the ghettos and camp out in Tokyo's most upscale neighborhoods as a nice photo-op to demonstrate the deteriorating situation in Japan. Continuing to mislead, Japanese officials publicly lamented the supposedly disastrous deterioration in public finance, but omitted the "footnote" that Japan's official foreign exchange reserves had skyrocketed from \$85.1 billion in 1989 to over \$840 billion according to the latest available data.

Finally, aside from the gullible Western media and American public, the reason that this charade has been able to continue is that it benefits so many different entities and individuals. Foreign sales representatives who do not reach their quotas have an excuse, as do Japanese foundations that seek to reject solicitations from American universities and other needy nonprofits. The same goes for the Ministry of Foreign Affairs when tempering the expectations of foreign aid recipients. Most notably, Fingleton contends that American investment bankers also have reason to emphasize bad news because of the investment strategy, called the yen-carry trade, in which the well informed can benefit from periodic bouts of weakness in the Japanese yen. **PEAR**

