Japan blazes a trail for living with stagnation and deflation — By Don Lee

The Asian nation's so-called Lost Decade, which the U.S. may be mirroring, offers Americans lessons on the good (lower prices, cheap mortgages) and the bad (skimpy pay raises, little or no appreciation in home values).

With some U.S. economists now predicting years of slow growth, stagnant salaries and even deflation, ordinary Americans may furrow their brows and wonder just what that means for them.

The answer may lie in the experiences of a 45-year-old systems engineer named Hiroshi K., his wife and two children. After more than 10 years of living it, they know all about stagnation and deflation — the good and the bad.

The 30-year mortgage on their house in a Tokyo suburb now carries an interest rate of just 2.5%. Recently, when the family bought a 46-inch high-definition television set, they got one-third off the $1,450 sticker price. Hiroshi’s wife gets her hair done for $25, less than half the cost 10 years ago.

That's the good news. The not-so-good news is that the family waited months for prices on the TV to drop; much of the price break came from government subsidies and retailer incentives.

Also, Hiroshi has not seen a significant pay raise in a decade, so he's not spending more either. And his 1,000-square-foot home is worth about the same as when he bought it seven years ago.

If Hiroshi’s story sounds familiar to Americans, it's because the United States — caught in the economic doldrums after the worst recession in more than a generation — is beginning to display many of the characteristics of Japan’s so-called Lost Decade.

That's the period when a booming economy that many expected to dominate the world instead ground to a halt, then slipped into a deflationary spiral that continues today.

Sitting under a cherry blossom tree at Ueno Park on a recent Sunday afternoon, Hiroshi — who asked that his last name not be used out of concern for how his employer might react to his candor — spoke about deep-seated worries that many Americans could relate to: job security, retirement, his children's future.

"Because of the uncertain economy, I can't really plan our future life," he said, his thin face tightening ever so slightly. He said he already changed jobs five times since graduating from technical college, something unthinkable for his parents' generation. "They never had that kind of worry."

Widespread layoffs and lower-paying jobs are nothing new in the United States. In recessions, U.S. companies have always cut back. But U.S. downturns also typically haven't lasted long, and they've been followed by extended boom times and bursts of hiring.

What's different now is that the U.S., after the big recession, could be settling into a long period of sluggish growth with little prospect for a quick fix. Slow growth and high unemployment tend to depress consumer prices as well as home values in Japan and the United States. But counterintuitive as it may seem, falling prices tend to discourage spending, not stimulate it. People hesitate to make big purchases for things they think will soon be worth less, especially homes.

Also, Americans are mired in debt, and the stubbornly high unemployment rates have made people feel insecure even if they still have jobs. Even though the Federal Reserve is holding interest rates unusually low to stimulate economic activity, it’s swimming against the current because businesses are reluctant to borrow money and expand, questioning whether hard-pressed consumers will buy more.

Many analysts, looking for a bright side, point out that the United States has a much more dynamic economy than Japan — with greater labor mobility and inherently more entrepreneurial energy. America's working-age population is not shrinking, as Japan's is. And perhaps most important of all, American officials have studied the policy missteps of the Japanese.

Even so, more than a few prominent economists, including Nobel laureate Paul Krugman, see the U.S. possibly sliding down a similarly dark path in which prices and wages fall and the economy stagnates. In some ways, the situation may turn out to be worse for Americans than it has been for the Japanese:
Japan's social norms and institutions provide more support for workers as well as homeowners and bank clients in trouble. "In a few years, we may envy Japan," says R. Taggart Murphy, professor of global management at Tsukuba University in Tokyo.

By world standards, Japan remains rich and fairly comfortable. Average household income is about $62,000 — slightly less than in the U.S. — based on the latest government data.

Much of Tokyo still looks rich. Sparkling towers are rising. Bullet trains run on time. Shopping districts are teeming. But discount stores are springing up too. In Tokyo's famous upscale Ginza shopping district, where real estate once sold for as much as $139,000 per square foot, the biggest new thing are stores like Forever 21, a Los Angeles chain of fashionable clothing that stresses value.

Across the street, where Brooks Bros. once did business, the popular Uniqlo apparel shop now sells men's pullovers for $11 and fleece sweaters for $24. The Toyoko Inn chain boasts of $80-a-night rooms that include breakfast. And downtown Tokyo pub manager Hiroto Matsuda slashed drink prices by half, to a little over $3 each, to keep up with the competition for salary-men customers.

"It's not that their incomes have gone up or down, it's because they don't know what's going to happen in the future," he said of his customers' reluctance to frequent watering holes after work.

The Lost Decade has taken an emotional toll as well. The number of Japanese suffering from depression, for example, has doubled in the last decade, with men in their 30s and 40s showing the highest rate, according to Japan's Welfare Ministry.

Yuki Honda, a professor at Tokyo University who has researched Japan's young adults, attributes a good part of this problem to the difficulty that workers — even graduates of top universities — have getting good permanent jobs.

"The Lost Decade made young people timid and afraid of what to do; it's made them even more risk-averse," Honda said. The Japanese have coined a name for young men who prefer quieter, less competitive lives — soushokudanshi, or herbivore men.

Other Japanese are almost fatalistic about the future, believing that things will never get better. Daigo Sato, 32, is too young to have memories of the earlier era when people were sprinkling gold flecks on sushi and thought nothing of spending thousands of dollars for the latest Gucci handbag.

"The economy has been the same ever since I graduated. I don't feel it's bad or worse, it's just the same," said the Osaka native, a college graduate who majored in history and has been working ever since as a salesman for a sake company. Previously, he said, the stock market was alive. Now, "I have my money in stocks, and they haven't done anything in 10 years."

Hiroshi, the systems engineer, is old enough to remember the heady days when people talked about Japan as No. 1. Now, he said, never mind the U.S., Japan can't keep up with China and South Korea.

He knows it's not all bad; he said he can afford to buy things for his children, ages 8 and 10, that he never enjoyed as a child. But Hiroshi worried that the pressures of deflation have pushed too many companies, including his, to keep driving costs down by going overseas or lowering quality.

"What will my children do [for a living] when they grow up if everyone looks for cheap stuff? he asked.

Hiroshi hopes he can retire from his current company but has no illusions that his employer will keep him if sales fall. He isn't counting on his $300,000 home to appreciate. Nor does he expect Japan's pension to support him.

So Hiroshi and his wife skimp to sock away 10% of his salary. Like many others, Hiroshi's wife recently took a part-time job.

This year, for the first time in several, Hiroshi said he got a small raise. How small? Enough for one extra beer a week — the special $3 kind.

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