

Contents

	Page
Preface	vii
I. Overview	I
<i>Ulrich Baumgartner and Guy Meredith</i>	
II. Does Japan Save Too Much?	4
<i>Kenneth Miranda</i>	
How Much Does Japan Save?	4
Recent Trends in National Saving	5
Japanese Saving in an International Context	5
How Much Should Japan Save?	6
“Golden Rule” of Accumulation	8
Dynamic Efficiency	12
Marginal Productivity	14
Conclusions	14
References	14
III. Japan’s Capital Flows	16
<i>Juha Kähkönen</i>	
Recent Developments in the Capital Account	16
Long-Term Capital Flows	19
Short-Term Capital Flows	23
Flow of Financial Resources to Developing Countries	23
Foreign Direct Investment	24
Concept and Measurement	25
Main Developments	26
Worldwide Perspective	28
Determinants of Japanese Outward	
Foreign Direct Investment	29
Characteristics of Japanese Overseas Subsidiaries	32
Effects of Japanese Foreign Direct Investment	
on Other Economies	32
Effects on Japan	33
References	34
IV. Demographic Change and Household Saving in Japan	36
<i>Guy Meredith</i>	
Previous Studies on Demographics and Saving	36
Evidence Supporting the Life-Cycle Model	36
Challenges to the Life-Cycle Model	38
Measurement of Saving in Household Data	38
Simulation Using a Life-Cycle Model	39
Conclusions	41

Appendix 4-1. Effects of Demographic Change on Saving With and Without Social Security	42
Appendix 4-2. A Life-Cycle Model of Household Behavior for Japan	43
References	44
V. Alternative Long-Run Scenarios	46
<i>Guy Meredith</i>	
Population Dynamics and Output Growth	46
Alternative Fiscal Scenarios	47
Implications for the Saving-Investment Balance	49
References	50
VI. Movements in Asset Prices Since the Mid-1980s	51
<i>Juha Kähkönen</i>	
Developments Since the Mid-1980s	51
Causes of Asset Price Inflation and Deflation	54
Role of Fundamentals	54
Changes in the Financial Environment	56
Was There a Bubble?	56
Impact of Asset Price Movements on the Economy	58
References	62
VII. Asset Prices, Financial Liberalization, and Inflation in Japan	63
<i>Alexander W. Hoffmaister and Garry J. Schinasi</i>	
Key Developments and Issues	63
Asset Price and Balance Sheet Adjustments	64
Alternative Explanations and the Role of Monetary Factors	65
Casual Empirical Evidence and Unresolved Issues	66
A Multiequation Model of Land Prices and Inflation	67
A Vector-Autoregression Model	67
Empirical Results	68
Conclusions	75
Appendix 7-1. Vector-Autoregression Modeling	76
Time-Series Properties	76
Lag Length	76
Structural Breaks	76
References	77
Tables	
2-1. Saving Rates of Major Industrial Countries	5
2-2. Optimal Gross Saving Rates Under Alternative Parameter Values	7
2-3. Private Sector Dynamic Efficiency	10
2-4. Aggregate Dynamic Efficiency	11
2-5. Return to Capital	13
3-1. Summary of the Capital Account	18
3-2. Flows of Securities	20

3-3. Long-Term Capital Outflow by Region and Type	21
3-4. Long-Term Capital Inflow by Region and Type	22
3-5. Net Long-Term Capital Outflow by Region and Type	24
3-6. Net Flow of Financial Resources to Developing Countries and Multilateral Agencies from Japan	26
3-7. Foreign Direct Investment by Region and Industry	28
4-1. Summary of Studies on Demographics and Saving	37
4-2. Income, Consumption, and Saving of Retired Households	40
4-3. Effect of a Demographic Transition on Aggregate Saving	43
6-1. Asset Price Developments	53
6-2. Consolidated Balance Sheet of Household Sector	59
6-3. Consolidated Balance Sheet of Nonfinancial Incorporated Enterprises	61
7-1. Selected Indicators of Financial Balance	65
7-2. <i>F</i> -Tests for Lagged Values of Explanatory Variables: Broad Money (M2 + CDs)	71
7-3. <i>F</i> -Tests for Lagged Values of Explanatory Variables: Credit Consistent with National Accounts	72
7-4. Variance Decompositions for the Land Price and Consumer Price Equations: Monetary Variables First in the Ordering	72
7-5. Variance Decompositions for the Land Price and Consumer Price Equations: Monetary Variables Last in the Ordering	73
7-6. Unit Root Tests	76
7-7. Lag Length Tests	77
7-8. Likelihood Ratio Tests for Structural Breaks	77

Charts

2-1. Gross and Net National Saving Rates	4
2-2. Gross National Saving Rates of Major Industrial Countries	5
2-3. Dynamic Efficiency	9
3-1. Current Account Balance and Capital Flows	17
3-2. Foreign Assets and Liabilities	17
3-3. Outward Foreign Direct Investment	27
3-4. Japanese and World Direct Investment Outflows	29
3-5. Direct Investment Outflows Among Five Major Industrial Countries	29
3-6. Direct Investment Inflows Among Five Major Industrial Countries	30
3-7. Direct Investment Income	34
5-1. Long-Term Demographic and Output Projections	47
5-2. Long-Term Fiscal Projections: Pre-Reform Program Parameters	48
5-3. Long-Term Fiscal Projections: Pre-Reform Program Parameters Versus Pension Reform	49
5-4. Long-Run Saving-Investment Balances: Pre-Reform Program Parameters Versus Pension Reform	50
6-1. Movements in Asset Prices	52
6-2. Stock Price Developments	52
6-3. Land Price Developments	54
6-4. Asset Prices and "Fundamentals"	55
6-5. Actual and Predicted Stock Prices	57
6-6. Actual and Predicted Land Prices	58
6-7. Household Saving and Net Wealth	60

7-1. Urban Land and Stock Prices	64
7-2. Total Private Nonfinancial Sector Debt	64
7-3. Household Sector Balance Sheet	64
7-4. Money, Debt, and Inflation	67
7-5. Asset Prices and GDP Deflator	67
7-6. Predictions of Land Price Inflation Using Private Credit as the Financial Aggregate	69
7-7. Predictions of Consumer Price Inflation Using Private Credit as the Financial Aggregate	70
7-8. Dynamic Simulations Using Two-Equation Subsystem and M2 + CDs as the Financial Aggregate	71
7-9. Dynamic Simulations Using Two-Equation Subsystem and Private Credit as the Financial Aggregate: Urban Land Prices	73
7-10. Dynamic Simulations Using Two-Equation Subsystem and Private Credit as the Financial Aggregate: Consumer Prices	74
7-11. Impulse Response to M2 + CDs	75
7-12. Impulse Response to Private Credit	75