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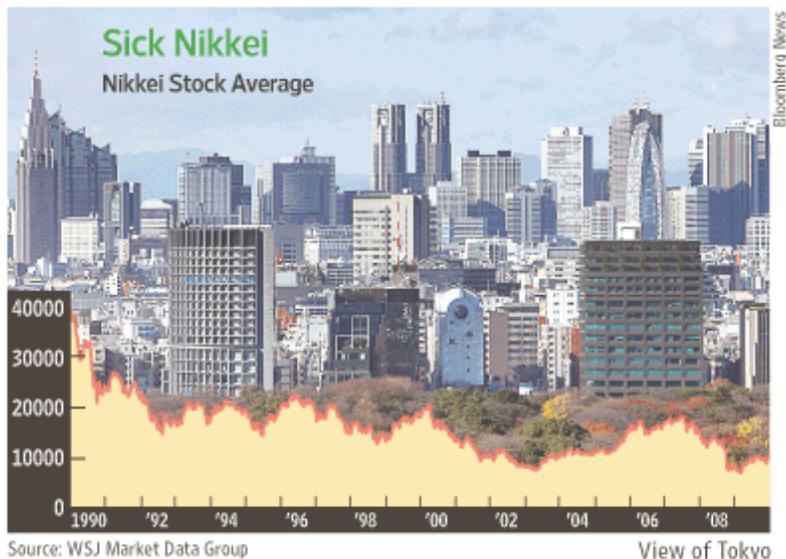
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Japan Risks a Third Lost Decade

By JAMES SIMMS

"We regret to inform you that nothing has been decided."

This pretty much sums up Japan's story over the past two decades. Policy makers and corporate leaders have muddled through without conflict, innovation or having to take responsibility for tough decisions.



The results speak for themselves. Japan marked the 20th anniversary of its asset bubble last week — with the Nikkei Stock Average of 225 companies ending 2009 at one-quarter of where it stood on Dec. 29, 1989. Nominal gross domestic product in yen terms is around the level it was shortly after the bubble popped.

Critically, the government's presumed rate of inflation of 1% is difficult to picture with deflation expected to continue for several years and still no

plan to overcome it.

How policies will be funded is another question. Already, a government that pledged to make highways free and slash gasoline taxes without having to increase borrowing is backtracking.

On the corporate side, for every successful firm like [Honda Motor](#), there are dozens of companies lulled into complacency by a huge domestic market and silent shareholders. Some firms have too many marginal or money-losing businesses, such as [Hitachi](#) and its some 700 subsidiaries. Others hang on to clearly non-core assets. Instant-ramen maker Nissin Foods owns a golf course.

This isn't to say Japan can't overcome its challenges. It's done so in the past, rebuilding after World War II, and becoming the world's most energy-efficient nation after the 1970s oil shocks. The country has a high quality workforce, leading technology and good basic education and infrastructure. Japan Inc. still makes things other countries want—in a way rivals still can't. And Japan ranks ahead of the U.S., U.K., Germany and Italy on measures such as longevity and availability of health care and education, the United Nations says.

But continuing inaction threatens to erode everything. Japan, which looks set to cede its position as the world's second-largest economy to China, simply needs higher growth. Not least, it needs to fund the burgeoning pension and health costs of a rapidly increasing retiree population, with the earnings of a rapidly shrinking workforce. Concern about the pension program's viability is a major drag on consumption too.

Even here, Japan's lawmakers have failed to act. Benefits need to be cut or burdens on the population, such as sales taxes, need to rise to pay for the ballooning costs. Investment returns also need to increase. Yet already, the new government has punted a final decision on this to 2013.

A new decade should herald a fresh start, but the more likely outcome may be more of the same: a Japan unable to take radical action.

Write to James Simms at james.simms@dowjones.com

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