

The title and abstract of the paper are as follows.

Title

The Deflationary Gap in Japan, 1970–2000: A Quantitative Measurement

by

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Short abstract:

The paper is a newly written report of the extended and recomputed works of the author's long continuing research on the quantitative measurement of the deflationary gap in Japan.

The deflationary gap in the recent Japan is undoubtedly very great. However, the *White Paper* series of EPAJ (Economic Planning Agency of Japanese Government) or Cabinet Office of Government of Japan in recent years depends on a questionable interpretation of the concept of the gap, so that its analyses have been very misleading. The author made up his mind to try to contrive an alternative way for measurement of the deflationary gap. The estimating procedure in the present study is as follows:

- (1) Computation of aggregate 'full employment and full utilization indexes' of labor force and enterprises' real fixed capital stock, by the use of 'original weights' and 'adjusted weights',
- (2) Experimental-exogenous setting of the ratio, i. e., the ratio of the 'yearly rate of technological progress(%)' to the 'yearly growth rate of real GDP(%)',
- (3) Computation of the indexes of 'full capacity GDP' corresponding to each ratio,
- (4) Measurement of the deflationary gap.

In the present study, the author has worked out some newly computations based on the factor cost GDP account. The paper also includes a replying comment to Professor Sato's criticism. An important consideration on the natural rate of unemployment and Okun's law are too included. In the light of the computed results in this study, we have to conclude that the deflationary gap in the recent (2000) Japan would amount to around 30-45% of the potential full-capacity GDP. The successive breeding of deflationary gap in the Japanese economy was not a cyclical phenomenon but a long-term cumulative trend.

List of keywords:

Deflationary Gap in Japan, Production Function, EPAJ's White Paper,
GDP at factor cost, Orthodox versus Questionable Concept of Deflationary Gap