# The World Economy

Vol 34, Issue 7

2011


# Why Did ‘Zombie’ Firms Recover in Japan?


Shin-ichi Fukuda

Jun-ichi Nakamura



**Abstract**

“The Japanese economy experienced prolonged recessions during the 1990s. Previous studies suggest that evergreen lending to troubled firms known as ‘zombie firms’ distorted market discipline in terms of stabilising the economy and caused significant delays in its recovery. However, the eventual bankruptcy of zombies was rare. The purpose of this study is to investigate why zombie firms recovered in Japan. We first extend the method of Caballero et al. (2008) and identify zombies from among the listed firms. Subsequently, we investigate the nature of corporate restructuring that was effective in reviving zombie firms. Our multinomial logistic regressions suggest that reducing the employee strength of zombie firms and selling its fixed assets were beneficial in facilitating their recovery. However, corporate restructuring without accounting transparency or by discouraging incentives for managers was ineffective. In addition, corporate restructuring lacked effectiveness in the absence of favourable macroeconomic environment as well as substantial external financial support.”




Recommended Citation

Fukuda, Shin-ichi, and Jun-ichi Nakamura. 2011. “Why Did ‘Zombie’ Firms Recover in Japan?” *The World Economy* 34 (7): 1124–37.