Sony chief warns of worldwide recession

Japan's economic crisis deepens

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7 April 1998

As Japan’s fiscal new year opened on April 1, its economy suffered a series of blows which, taken together, point to a deep and long-term slump, with vast global implications.

In just three days:

• one of Japan’s largest property firms collapsed;

• its big banks declared record bad debts;

• Sony chief Norio Ohga warned that the economy was on the brink of a collapse that could trigger a “worldwide recession”;

• Moody’s, an international credit ratings agency, placed the country’s sovereign debt on review;

• the Nikkei share index plunged 7 percent.

Despite strenuous denials by Prime Minister Ryutaro Hashimoto, who was attending a Europe-Asia summit in London, the world’s second largest economy is in clear danger of descending into an uncontrolled deflationary spiral of falling prices, profits, consumption and investment.

And while stock prices are hitting dizzy new heights in Europe and America, business commentators and government leaders are warning that Japan’s crisis could spark a “second wave” Asian meltdown and drag the world into a 1930s-style depression.

Perhaps the most serious indicator of the risk to world capitalism’s financial system was last Friday’s decision by Moody’s Investors Service to downgrade the outlook of Japan’s sovereign debt from stable to negative. No member of the Group of Seven (G-7) largest economies has ever has its government’s AAA rating challenged before.

Moody’s action shook financial markets. The yen fell to a six-year low of 135 to the US dollar, and the Nikkei index fell 185.12 to 15,517, on top of the previous day’s 3.3 percent decline.

More fundamentally, Moody’s comments pointed to a protracted crisis, lasting a decade or more. The New York-based agency spoke of uncertainty about Japan’s ability to “achieve a policy consensus that would help promote a return to economic growth and fiscal balance.” Translated into plain language, Moody’s questioned the Japanese government’s will, and indeed its financial capacity, to reverse the country’s worsening seven-year-old slump.

Moody’s warned of deflationary pressures, eroding business confidence and structural weaknesses in the financial system, saying they could prevent any government fiscal stimulus package from having a lasting effect. The agency said Japan already had a large public debt that would grow as the government continued bailing out shaky banks. Another source of the debt is the more than 75 trillion yen ($600 billion) that governments have spent on unsuccessful economic stimulus packages since 1992. Of the G-7 countries, Japan now has by far the highest ratio of public sector debt to Gross Domestic Product (GDP), at 86.7 percent. The US has 61.5 percent, with Britain, France and Germany either just above or below that figure.

Moody’s acknowledged that Japan was the world’s biggest creditor, with $220 billion in foreign exchange reserves, but said the country’s financial system was vulnerable to adverse capital shifts following the country’s so-called Big Bang financial deregulation, which began on April 1. In other words, Moody’s raised the specter of a capital flight from Japan. “It’s a sell-Japan scenario,” commented Kazuhiko Ogata, an economist in the Tokyo branch of Jardine Fleming Securities.

In a less reported development, the Hashimoto government’s attempts to deny the significance of the Moody’s report were belied by a working paper released by the central bank, the Bank of Japan. Yet to be published in English, it suggests that Japan may not record anywhere near 1 percent annual economic growth over the next 30 years, no matter how hard the government seeks to stimulate economic activity.

This in itself would spell disaster for the other, far smaller, Asian economies, which rely on Japanese markets. In an editorial commenting on the report, The *Australian Financial Review* stated: “Japan is facing the very real problem of sliding into a prolonged recession, which would lead to a ‘second wave’ of financial and economic instability in the Asian region, far more damaging than the first, now being experienced.”

The day before Moody’s dropped its bombshell, Sony’s head, Norio Ohga, said Japan’s economy was facing its most difficult time, with a “long downward spiral of deflation” threatening the global economy. “To make matters worse,” he said, “there is a sense of pessimism prevailing in the country.”

In a rare display of the divisions wracking the Japanese ruling class, Ohga, who runs Japan’s best-known electronics giant, publicly attacked his own government. He compared Hashimoto to US President Herbert Hoover, who, Ohga said, had triggered the 1930s Great Depression by pandering to domestic pressures at the expense of the international economy.

Naturally, Ohga’s comments reflect the specific profit interests of his own company, which is demanding that Hashimoto do more to halt what has become a catastrophic slide in consumer spending. Ohga noted that households were spending only 68.6 percent of their disposable income, down from 72 percent in the middle of last year, and the lowest figure since this statistic began to be tracked in 1970.

Sony's operations are also far more integrated into the global economy than other sections of Japanese big business, particularly the heavily protected and regulated banks, finance houses and construction companies. His remarks express a split between two conflicting tendencies in what used to be called "Japan Inc."

Nevertheless, apart from his immediate factional purposes, his comments reflect well-founded fears of an economic implosion in Japan, which would have an incalculable global impact. He was speaking after the release of a quarterly survey of 10,000 enterprises by the Bank of Japan, showing a dramatic slump in business conditions and confidence.

The March quarter *Tankan* survey was far worse than predicted, with the manufacturing index down from minus 11 in December to minus 35. Business economists said the result confirmed that Japan was already in recession, weighed down by industrial overcapacity and excessive indebtedness.

Other media outlets reported that consumer and business confidence has fallen so low that sales of home safes are one of the few growth markets. Rather than spend or bank their savings, Japanese consumers are increasingly locking them away. Many fear for their future, having seen the market value of their homes and all other forms of real estate disintegrate since 1990, banks crash, wages decline and unemployment rise to a record postwar high. These psychological factors, based on very real financial difficulties, are now beginning to further depress the economy.

Compounding the pessimism is the credit squeeze applied to small and medium-sized businesses by the debt-burdened banks. Even though interest rates have fallen to almost zero, lending is so tight that bankruptcies are running at record levels of about 1,500 a month.

On April 1, the first day of the new financial year, Japan's 19 major banks announced plans to write off 10.2 trillion yen ($78 billion) in bad debts. This was 2.5 trillion more than expected, and a record amount. Bank of Tokyo-Mitsubishi, Sakura Bank and Fuji Bank will each write off 1 trillion yen or more.

This liquidity crisis, the outcome of the bursting of the enormous share and property bubble of the late 1980s, is compelling the banks to foreclose on larger companies, such as Daiichi Corp, which declared bankruptcy on April 1. The real estate development company went into voluntary liquidation, owing 450 billion yen ($3.1 billion) after its four major bank lenders refused to continue support. It was Japan's fifth-largest non-bank collapse.

The financial turmoil will intensify following the plunge of the Nikkei Index to below 16,000. Just days before the end of the 1997 fiscal year, the Hashimoto government declared it would soon release its largest ever economic stimulus package, with the reported aim of boosting the Nikkei Index to 18,000 for April 1. Its intention was to help keep banks and finance houses afloat by disguising their true end-of-the-year bad debt levels. But instead the financial markets dismissed the 16 trillion yen package and sent share prices tumbling, further undermining the banks.

Japan's slide into recession, coming on top of the ongoing Asian meltdown, has brought further calls from the United States and Europe for emergency action. Last weekend US President Clinton made his sharpest attack yet on his Tokyo counterpart, urging him to jettison policies "not appropriate to the present." To add to the pressure on Hashimoto, Clinton talked provocatively of a "raging battle" within the Japanese government. French President Jacques Chirac and Singapore's Prime Minister Goh Chok Tong made only slightly less blunt remarks at the Asia-Europe summit.

While they appear to be riding high on soaring stock markets, the American and European governments are conscious of the likely global fallout from Japan's crisis. In the first instance, they know that if the yen depreciates further—it has fallen 60 percent against the US dollar since 1995—it could set off another wave of currency devaluations in Asia, including China. They have blamed the yen's decline for sparking the failure of the former East Asian "tigers." Because the East Asian currencies were tied to the greenback, the yen's depreciation slowed their exports, precipitating a crash.

Secondly, a flight of capital from Japan could see billions of dollars worth of Japanese funds withdrawn from US and European markets. While these markets are currently in a speculative frenzy, partly in anticipation of profiting from corporate Japan's woes, this will only make their ultimate crash all the greater.

Hashimoto and Tokyo officials have tried to assuage Washington and the European capitals by holding out the prospect of lifting domestic spending with tax cuts in the still yet-to-be detailed 16 trillion yen stimulus package. However, Western economists have discounted the offer as inadequate and, moreover, accused the Hashimoto government of falsely inflating its initial estimates of the package's size.

Demands for Japanese tax cuts, in order to raise consumer spending, are also a lever to open up Japan's internal market to US and European transnationals. Not content with Japan's April 1 opening of financial deregulation, American and European big business are insisting that Tokyo lift all regulatory economic barriers.

The *World Socialist Web Site* will in the course of this week publish an article examining the significance and implications of Japan's "Big Bang" financial deregulation.