

Statistics show gathering world recession

Nick Beams
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Reports issued over the past few days have highlighted the growing recessionary tendencies within the world economy and the destructive social consequences of the depression that has gripped much of Asia over the past year.

The Japanese economy recorded its fourth consecutive quarterly contraction with negative growth of 0.7 percent in the September quarter; the World Bank has warned there is a "substantial risk that the world economy will plunge into recession in 1999"; and the World Trade Organization has predicted that the rate of growth in world trade will be cut by half this year.

Commenting on the latest Japanese statistics, which showed the economy contracting at an annual rate of 2.6 percent, the head of the Economic Planning Agency, Taichi Sakaiya, said it would be "difficult" to reach the government's target of a minus 1.8 percent growth rate but maintained that the government's goal was positive growth in 1999.

Some government spokesmen have asserted that the slide in the economy is nearing the bottom, but according to central bank governor Masaru Hayami there is no statistical evidence of this.

And an analysis of the latest figures shows that the economy is in a downward spiral. The main factor behind the contraction was a 4.6 percent fall in capital spending, the third successive quarterly decline in excess of 4.5 percent.

According to the chief economist at Jardine Fleming Securities, Chris Calderwood: "Capital spending is falling heavily, very quickly and that is the main factor dragging down the whole of GDP. Demand is falling and it is causing prices to fall and falling prices are feeding back to corporate profits and cuts in real capital expenditure. If this isn't a deflationary spiral, God help us if we see one."

Consumer spending fell 0.3 percent for the quarter

while housing spending was down by 6.2 percent. The only positive number was the 3.6 percent rise in public investment works as a result of the fiscal stimulus packages announced by the government.

But data from the Ministry of Finance raises the longer-term question of how such expenditure can be sustained. It forecast that total government debt would hit 560 trillion yen (\$4.5 trillion) by next March, exceeding the Japanese gross domestic product for the first time.

And even with the stimulus packages, the slump is beginning to take its toll on major Japanese corporations. This week one of the country's largest construction firms, JCB Corp, filed for bankruptcy with debts of \$3.3 billion--the second major construction company to go under in the past 18 months.

More companies are to go the same way. According to Alicia Ogawa, head of research at Salomon Smith Barney: "The consensus here is that there are tremendous levels of excess capacity in the construction industry and that there are quite a number of companies whose existence, particularly in the current form, really is questionable."

The global impact of the Japanese slump is reflected in predictions issued by the World Trade Organization (WTO) on world trade. Growth in exports this year was expected to slow to "somewhere between 4 and 5 percent" compared to the 10 percent rise in 1997. However the WTO said this figure could be revised downwards and noted that "considerable uncertainty prevails in regard to world economic developments in the coming months".

The WTO said the slump in Asia had hit commodities hard with oil prices down by 30 percent and non-fuel commodity prices reduced by 15 percent since the crisis began. The report noted that imports of the five Asian countries worst hit by the crisis--Korea, Indonesia, Malaysia, the Philippines and Thailand--had fallen by

one-third, with exports down 3 percent. Japan's exports were down 8.5 percent in the first nine months of the year with imports falling by 19 percent.

The World Bank's annual report, *Global Economic Prospects and the Developing Countries 1998-1999*, delivered an implicit criticism of both the International Monetary Fund and the United States Treasury, saying that high-interest rate policies aimed at trying to shore up currency exchange rates had led to devastating recessions in Asia. Direct references to the IMF and US Treasury were cut from the final report but there was no doubt that both organizations were blamed for turning an investor panic into a full-scale slump.

Delivering the report, World Bank chief economist Joseph Stiglitz said the high interest policy imposed on Korea, Thailand and Indonesia, which was supposed to restore investor confidence, had in fact deepened the crisis. It failed to save companies which had invested in overvalued real estate because "those firms were already dead" while it created "a huge number of bankruptcies" as small firms found they could not pay off debts nor buy raw materials.

Stiglitz estimated that up to 75 percent of Indonesia's firms were now bankrupt.

In an article published in the *Financial Times* he pointed out that in 1998 some 36 countries, accounting for 40 percent of the world's gross domestic product and more than a quarter of its population, will see negative per capita growth.

In a criticism of the IMF regime, Stiglitz wrote that the primary role for fiscal and monetary policy in future crises should be to "shore up demand, expand the social safety net, recapitalize banks, and restructure banks". He noted that "excessively contractionary policies, in economies beleaguered by highly indebted firms, lead to high rates of bankruptcy, making the tasks of corporate and financial restructuring and the restoration of business confidence more difficult."

The social impact of the IMF measures were outlined in a report issued earlier this week by the International Labor Organization. According to its author, ILO economist Eddy Lee, the social costs of the Asian crisis are much higher than initially estimated and are "dramatically worsening".

The economic collapse had resulted in soaring unemployment, spreading poverty, dashed expectations. In Indonesia and Malaysia unrest had

already spread onto the streets. Elsewhere there was "a tremendous amount of social instability just beneath the surface".

His report estimated that economic output in Indonesia would decline by 15 percent in 1998 and in Thailand and Korea by 6.5 percent and 5 percent respectively.

But such figures only hint at the social crisis. In Indonesia alone, the ILO report estimates that the crisis has destroyed one-fifth of all non-farm jobs, driving 40 million people, or 20 percent of the population, into poverty.

In Thailand the unemployment rate will triple to 6 percent while in Korea, which is supposedly on the road to "recovery," unemployment will jump to 8.2 percent from 2.3 percent a year ago, and 12 percent of the population will fall below the poverty line.

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