Japanese contraction reveals global tendencies

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The latest figures on the Japanese economy, showing a contraction for the fifth quarter in a row and the most severe downturn in the post-war period, have major implications, not only for that country. They point to underlying recessionary tendencies within the global economy as a whole.

According to the latest data, growth from exports is falling, domestic demand is being cut back and Keynesian economic measures based on expanded government spending have failed to stimulate the economy.

The Economic Planning Agency (EPA) has reported that the economy shrank by 0.8 percent in the December quarter, signifying an annual contraction rate of 3.2 percent, and bringing the decline in gross domestic product in the 1998 calendar year to 2.8 percent--the worst in the post-war era. Most observers believe that Japan will undergo at least three consecutive years of recession.

According to Deutsche Bank spokesman Keith Landon: "The fact that these figures were so much worse than expected leads me to believe that the government has underestimated the economy's weakness up until now."

The contraction hit all areas of the economy. Private consumption was down 0.1 percent, exports 3.4 percent and investment 7.8 percent. The only growth area was public investment--up by 10.6 percent as a result of the government's fiscal stimulus packages.

Jobless figures released earlier this month show the growing impact of the recession. The total number unemployed is now almost 3 million, 25 percent higher than a year ago. The official unemployment rate is 4.3 percent, also a post-war high. By some estimates, if less stringent criteria were used the real jobless rate could be double the official figure.

Recently-released minutes from the Bank of Japan's monetary policy board meeting show that a majority of board members see no prospect of recovery, with some expressing fears of the development of a deflationary spiral.

Members of the EPA and other government bodies are sticking to the line that the economy is on the point of an upturn. But virtually all independent commentators discount these assertions. For example the *Australian Financial Review* correspondent said Friday's figures made one thing "bleeding obvious: there is still no domestic demand in Japan."

"Consumers don't want to spend, business does not want to invest. External demand, particularly in Asia is weak. And the government has run out of money for more public works binges.

"It now appears inevitable that barring some economic miracle, Japan will become the first G7 country to post three consecutive years of declining GDP. And economic miracles are not something the ruling Liberal Democratic Party has come up with recently."

While much of the commentary on Japan tends to centre on the specific features of its national economy--in particular, the effect of the estimated $1 trillion in bad debt held by the banks--the full significance of its worsening economic position can only be grasped in relation to global economic trends.

The deflationary pressures that have gripped Japan are now manifesting themselves across the East Asian region. Given that growth in these economies was responsible for half the increase in world economic output in the first half of the 1990s, this development has major international significance.

Throughout the Asian region, prices are falling, leading to a depression of manufacturing production and profits. Industrial overcapacity is increasing and banks are cutting back on lending because of an increase in bad risks.

In Japan, producer prices fell by 4.4 percent in 1998,

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with consumer prices down by 0.6 per cent. In China, where stockpiles of unsold goods are increasing, retail prices have been falling for more than a year. In Taiwan, which is regarded as having the best economic prospects after China, producer prices fell by 10 percent in January. In South Korea, the producer price index dropped by 4.3 percent in February, compared to a 15.3 percent rise in the same month last year. Prices are falling in both Singapore and Hong Kong, cutting company profits.

Lehman Brothers Tokyo economist Russell Jones told the *International Herald Tribune* that while some of the price falls were "benign", reflecting technological advances and deregulation, "the bulk is malign and a function of demand deficiency".

"Anemic demand, business and consumer pessimism, and financial stress could feed off each other and encourage much steeper declines in the price level."

The same tendencies can be seen in the figures on world trade. According to the latest available figures, in volume terms the rate of increase in world trade halved in 1998. The value of world trade is expected to decline for the first time in several decades after increasing by 3 percent in 1997.

Imports into the five Asian countries most affected by the financial crisis dropped by one-third last year, while imports into Japan fell by 19 percent. World trade has been largely sustained by the increase in the US market, but this has been fueled to an ever-increasing extent by the growth in debt. The well-known US economist C. Fred Bergsten recently estimated that the net foreign debt of the United States would rise to almost $2 trillion this year, equivalent to almost one quarter of gross domestic product.

The increasing fragility of the world economy has prompted the expression of concerns about the monetary policy of central banks and global financial institutions based on cuts in the money supply, reductions in public spending and high rising interest rates.

In an article published in the March 3 issue of the *Financial Times* former Clinton Labor Secretary Robert Reich warned that bankers were fighting "the wrong war" and needed to concentrate on the danger of deflation, rather than non-existent inflationary pressures.

"The average inflation rate in the Group of Seven leading industrial economies," Reich noted, "is 1 percent, the lowest in half a century. Inflation in most of Europe is close to zero, but unemployment among the Euro-11 is 10.7 percent. Japan's economy is turning into a shrivelled raisin. Prices are dropping across much of east Asia, including China. Russia remains a basket case, and the outlook in Latin America is poor to bad.

"American consumers are about the only large group of people in the world who are diligently buying. It would be only a slight exaggeration to say that American consumers have become the engine of the world economy."

But as Reich went on to note, the virtuous circle, in which rising stock values lead to increased debt, greater spending and further stockmarket increases "could turn vicious."

For Reich, and other neo-Keynesian commentators, the present dangerous situation can be turned around through the application of different policies--lower interest rates and increased government spending. But given the fate of German finance minister, the neo-Keynesian Oskar Lafontaine, and the failure of such measures in Japan, these policy prescriptions are looking increasingly threadbare.

Moreover, when considered over the longer-term, the present crisis indicates the emergence of deep-seated structural problems within the world capitalist economy. Since the high point of economic expansion in the 1960s, economic growth in each decade has been around one third lower than in the preceding one. In other words, even in the 1970s, when world capitalism was beset by deepening recession and the problems associated with the quadrupling of oil prices, economic growth was higher than in the 1990s.

The persistent contraction of the Japanese economy--and the fact it has failed to respond to a massive fiscal stimulus--cannot be see as merely the outcome of certain national peculiarities. Rather those peculiarities are a particular expression and combination of general tendencies at work within the world economy as a whole.

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