Japanese unemployment climbs as "restructuring" begins

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Over the past months, spokesmen for the Japanese government have insisted that the "worst is over" and that the economy is about to "turn the corner". But with the commencement of the new Japanese fiscal year on April 1, all the signs are of deepening recession. Major corporations have started a "restructuring" program that could see hundreds of thousands, if not millions, of workers thrown out of what once were regarded as secure jobs.

Economic data for February showed that the understated official jobless rate had risen to 4.6 percent, with the number of unemployed workers rising to more than 3 million for the first time. The number of people forced out of work by bankruptcy and restructuring increased by 270,000 to 960,000 for the previous 12 months. The number actually employed falling by 770,000--a decline of 1.2 percent and the biggest such decrease since 1975.

There were no signs of the promised "upturn". In fact consumer spending in February fell by 4.1 percent while industrial output declined by 0.6 percent. The proportion of household income devoted to consumption spending fell to 67.8 percent from 70.9 per cent, the lowest level since 1970.

Even the voice of official optimism, Taichi Sakaiya, the head of the Economic Planning Agency, was forced to conclude: "Honestly, we have to recognise that data for February has been much worse than expected."

While the economy may continue to receive a limited stimulus from recent massive government spending decisions, the effect of these measures will quickly diminish. Finance Minister Kiichi Miyazawa says the government has done all it can to boost the economy and it is now up to the corporate sector to cut excess capacity.

But far from restoring corporate profitability and sparking an economic revival--the outcome predicted by the Panglossian scenarios of "free market" economic theory--the result of such "restructuring" will be a rapid rise in jobless levels.

According to the Warburg Dillon Read Tokyo economist Brian Rose: "Anybody who thinks that corporate restructuring will take just two quarters and then there'll be a recovery is deluding themselves. There's a real danger that large-scale restructuring could trigger the next phase of the recession."

The scope of the measures being demanded was spelled out in an article in the March 25 edition of the British magazine *The Economist*.

"Japanese companies," it claimed, "probably employ 4m-5m too many people. Until now, managerial timidity, a lingering belief in providing jobs for life and fear of bad publicity have kept these workers in jobs. But as the recession has bitten deeper, attitudes have begun to change. Everyone expects global giants like Sony to copy ruthless American rivals--and the firm did not disappoint this month by announcing plans for 17,000 job losses. News that other big companies are planning to do the same, including high-tech NEC, which wants to cut its payroll by 15,000, is far more unsettling. That 15 of Japan's biggest banks ... are losing 20,000 jobs is deeply shocking. If Japanese companies rid themselves of only half their 'in-house unemployed', the jobless rate will double, to nearly 9 percent."

That might only be the beginning. A recent publication by the Japanese Nomura Research Institute maintains that if the underemployed staff employed by corporations were made redundant, the jobless rate would soar to 15 percent.

The deepening Japanese recession is a living testimony to the failure of so-called Keynesian

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measures, based on increased government spending, to boost the economy.

So far this decade the government has spent about $700 billion in stimulus packages, equivalent to five times the fiscal boost given to the American economy in the 1980s. The government deficit stands at 10 percent of national output and is rising.

In order to finance its various packages the government has boosted debt levels to unprecedented levels. At the start of the decade government debt was equivalent to 56 per cent of gross domestic product. It now stands at 110 percent and according to Moody's Investor Services it could reach 150 percent by the end of the year--a level beyond that attained in any advanced capitalist country.

While the rise in debt precludes further stimulus packages, attempts to boost the economy by cutting interest rates are also ruled out because official rates are already close to zero.

The economic stimulus mechanisms employed in the past have all but broken down because of the deflationary tendencies gripping the economy. In the financial sector, the banks are caught in a downward spiral. As fast as they increase profits, their overall financial position is made worse by the decline in value of the property that forms the asset backing for their outstanding loans.

The latest figures show that in 1998 real estate prices fell for the eighth consecutive year. Commercial values in three major urban areas dropped by 10.2 percent last year, compared with a 7.5 percent decline in 1997, taking commercial property prices in Tokyo to 75 percent below their peak in 1991. As the assets held by the banks decline in value, so they are unable to undertake new loans, thereby constricting business activity.

The fall in residential property prices in the same regions--down 5.7 percent this year compared to 2.2 percent in 1997--has meant that home buyers often have a negative equity in their residence, that is, they owe more than the property is currently worth. As a consequence they tend to cut back on consumer spending, resulting in a further contraction in the economy.

Investment by corporations, the driving force of economic growth in a capitalist economy, is being held back by overcapacity in all sections of industry. According to the International Monetary Fund, the output gap in the Japanese economy as a whole--the difference between its capacity and actual level of output--will have increased from 2 per cent in 1997 to 7 per cent by the middle of this year. In the manufacturing industry overcapacity is estimated to be between 20 and 30 percent.

While the government continues to hold out prospects for a turn around, financial firms are predicting a further contraction. Lehmann Brothers forecasts a GDP decline of 1.5 percent for 1999, while the figure from Schroders is 1.9 percent.

Tokyo economist Andrew Shipley warned that "structurally nothing has changed in Japan in terms of deteriorating profitability or the passive stance of policymakers to deal with various crises which the economy continues to face." There would be a further deterioration in asset values. If there were an external shock to the economy the "impact could be quite severe".

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