Economic stagnation set to continue in Japan

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Recent comments made by the Japanese Finance Minister, Kiichi Miyazawa, concerning the country's economic growth rates point to a continuation of the economic stagnation which has gripped the world's second largest economy for the past decade.

In a television interview last month Miyazawa said the Japanese economy could experience another contraction in the second quarter of the year despite a recovery in the first quarter.

"Growth will depend on how much private consumption picks up in the April-June quarter. GDP may grow slightly but it may also show a contraction," he said.

Miyazawa declared that the economy had experienced as much as 2 percent growth from January to March. However this figure has been thrown into doubt. According to a report in the *New York Times*, Japan's Economic Planning Agency had deliberately excluded statistics on declining capital investment by Japanese financial institutions when calculating growth figures at the end of last year.

The motivation for the "cooked figures" is rumoured to have been the Japanese government's attempts to portray the economic situation in a better light in the lead-up to the upcoming national election on June 25.

The controversy surrounds the October-December 1999 figures released by the EPA, which originally showed the economy contracting by 1.4 percent. These figures were calculated on the basis of a 3 percent decline in capital investment, whereas the real figure is said to have been 37 percent. The EPA apparently decided to simply ignore the larger figure.

The *Financial Times* noted last week that the "embarrassing revision to Japan's official statistics may put even the government's meagre growth forecast for the just ended fiscal year out of reach."

The key to Japan's rise out of its 10-year economic slump, according to economic analysts, is an increase in consumer spending. Personal consumption of goods and services accounts for about 60 percent of the country's economic activity.

However prospects of an improvement remain gloomy with falling consumer spending being accompanied by rising unemployment and a decline in capital investment.

Figures published in late April revealed that the number of unemployed rose 220,000 to 3.49 million in March. The overall unemployment rate stayed at a post-war high of 4.9 percent for a second consecutive month, with predictions of a continuing rise due to corporate restructuring and a decline in public spending.

Although a figure of 4.9 percent may seem low in comparison to unemployment rates in other industrialised countries, the Japanese figures are somewhat distorted. For instance, any worker who works more than one hour in the last week of a month is regarded as having a job. Analysts believe that a more realistic figure would be closer to twice the official unemployment statistics. Corporate restructuring along with company bankruptcies have already taken their toll. The unemployment rate for men rose 0.1 percent in March to a record high of 5.2 percent.

Japanese retail sales also fell for the thirty-seventh consecutive month in April. Figures published by the Japanese Management and Co-ordination Agency last month revealed a record annual decline in salaried workers' disposable income, which shrank more than 2 percent in real terms over the past year.

Fears about the health of the economy, rising unemployment and rising taxes have played a large part in the decline in consumer confidence and spending. Outlining this concern the *International Herald Tribune* noted: "Consumption has long been Japan's weak economic link. The country sits on the largest pile of savings in the world, but people are reluctant to spend because of growing uncertainty over employment and a suspicion that tax rates will eventually have to rise to fund a huge budget deficit and an even bigger pensions shortfall.”

The Japanese government has spent more than 1 trillion yen on Keynesian economic measures based on boosting public spending in an effort to kick-start the economy. These measures have largely failed.

With an election looming, Miyazawa stated that he did not think yet that another large-scale emergency spending package would be needed this year, but added that he would not hesitate if the need arose.

The direction of Japanese government policy has also been the subject of comment by the International Monetary Fund. On Tuesday IMF deputy director Stanley Fischer raised concerns that Japan may need another government spending boost—advice he delivered to the Japanese government the day before.

“Japan can't afford another aborted recovery,” he said. Fischer said that the Bank of Japan should not abandon its zero interest rate policy until there were clear signs that a recovery was under way and warned that prospects for an upturn were now less secure following the release of figures on Monday showing a less than expected increase in industrial production and recent falls on the Tokyo stock market.

However, these concerns appear to have been brushed off by Miyazawa. He is reported to have told Fischer that interest rates were the prerogative of the Bank of Japan and that the government had to consider the implications of more spending on Japan's huge budget deficit.

Japan is currently running a budget deficit equivalent to 10 percent of GDP while the level of government debt is estimated to be 120 percent of GDP.

Recent comments by the president of the opposition Democratic Party of Japan, Yukio Hatoyama, reflect demands from within Japanese ruling circles for a government that will carry out a program of fiscal restraint and economic deregulation.

“The fiscal situation in Japan is just not sustainable—we have to tell the public this truth, even if it is a painful truth,” he said. Hatoyama went on to say that economic growth alone would not tackle the debt problem. “Our debt is now the size of the GDP of the UK, France and Germany; it means 40 million yen per household.”

However a “restructuring” of the financial system, leading to the liquidation of financial institutions, could have far-reaching international repercussions. The fear is that a major liquidation of debt could see a massive withdrawal of Japanese funds from the US, where they have played a major role in financing the ever-growing American balance of payments deficit.