Japan's economic woes continue

Joe Lopez
11 November 2000

Recently released economic statistics and comments this week by the director-general of Japan's Economic Planning Agency, Taichi Sakaiya, confirm Japan's economy is far from the road to recovery.

This week Sakaiya told the press that he “cannot be optimistic” about Japan's economic outlook and that there is a risk the economy may in fact fall back into “a slump”. “I have a feeling that the economy is falling into a slump, particularly the stock market. I expected such a situation would come. So I am neither surprised nor upset. I am also not pleased,” he said.

A number of economic statistics released in the past few weeks confirm this gloomy outlook. The Japanese stock market's benchmark Nikkei 225 index has plunged more than 6,000 points since April to be less than 15,000. This is particularly damaging for the debt-ridden financial sector where much lending is secured by what are over-priced share portfolios.

As the *Australian Financial Review* noted in a recent report: “A continuing weak stockmarket in Japan will threaten the recovery in the real economy, but meanwhile the pressure on banks and insurance companies to realise any gains, together with the stock hanging over the market, means a short term recovery in the stockmarket is almost impossible.”

Japanese corporate bankruptcies are predicted to reach a 50-year post-war high this year, according to credit research firm Teikoku Databank. September figures revealed that the number of failed companies rose 9.5 percent from September last year, representing the eleventh monthly rise in corporate bankruptcies.

Teikoku Databank indicated that the number of corporate bankruptcies would most likely top 19,000 this year—one of the highest levels in the past 50 years. In the six months to September, bankruptcies rose 19.6 percent with debt levels up 48 percent to 10,910 billion yen. This is the first time that such debt levels have risen above 10,000 billion yen in a six-month period.

The list of notable corporate failures included some of Japan's largest insurance firms. Kyoei Life collapsed last month with liabilities of 4,600 billion yen or $42.4 billion, the country's largest post-war corporate failure. Kyoei Life was Japan's eleventh largest life insurance company. Two weeks earlier another insurance company, Chiyoda Life, collapsed with debts totaling 2,940 billion yen.

According to Teikoku Databank, 75 percent of the insolvent companies blamed the poor state of the economy for their failures.

Another set of economic data highlighting Japan's trajectory towards slump were September's retail figures, which were down for the forty-second consecutive month. Retail sales fell 1.5 percent in September, after a decline of 1.3 percent in August.

According to Takuji Okubo, associate economist at Goldman Sachs Japan, concern by consumers over the state of the economy, job insecurity, pensions and higher taxes are affecting spending levels.

“Consumption is weaker than we hoped for and that must be stemming from consumer concern about the long-term growth of the economy [because of] uncertainty about pensions and government debt,” he said.

The Japan Automobile Manufacturers Association also released figures late last month indicating that domestic vehicle production fell 9.6 percent in September, the first decline in eight months. The association is predicting that vehicle exports will decline by 5 percent this year.

Economic analysts have been continuing to revise predicted economic growth rates in the light of conflicting assessments being made of the health of the Japanese economy. In contrast to many analysts' predictions of a 2 percent growth rate, the Bank of Japan earlier this month stated: “At this point the possibility that Japan's potential supply growth, the economy's potential growth rate, does not extend to 2 percent.”

The Japanese government is finalising yet another plan to try and resuscitate the economy through a 4,000 billion-yen spending package. Government officials have stated that without the extra spending the economy could slip back into recession.

However, the new spending package has drawn

© World Socialist Web Site

criticism. According to the opponents of this policy, the government is not undertaking economic restructuring but is merely adding to the debt burden. Even before the latest stimulus package, government debt stood at around 130 percent of GDP—the highest of any major industrialised nation.

This has brought criticism from both inside Japan and from international financial markets. A report published in the British magazine *The Economist* earlier this month was highly critical of the failure of the Mori government to show leadership in the economic “reform” process—the “restructuring” of the Japanese economy through the bankrupting of highly-indebted corporations and financial institutions, and its opening up to penetration by international capital.

“It all seemed to be going so well,” the article began. “The alarms of the 1997 banking crisis had faded. Government spending had lifted the economy out of recession. Growth had at last begun to spread to the private sector. Yet the past few months have not been happy for Japan's convalescent economy. Far from accelerating towards the heady growth that had come to seem normal in the decades up to 1990, the recovery has started to look anaemic at best and endangered at worst.”

The short-lived signs of economic recovery had faded, leaving behind the difficulty of major economic restructuring. While Tokyo's boardrooms were full of talk about job cuts, buyouts, spin-offs and mergers, all but a handful of companies such as Sony and Honda had the leadership necessary to “force through chang.”.

“Some big companies are belatedly collapsing under their debts, cheering Japan's reformers with thoughts of a new economic order; but they also point to more pain ahead. There is still some hope for the new high-tech industries; but a bubble in the stockmarket had magnified their economic importance many times. Since the high-tech crash began in February, their share prices have slid lower and lower,” *The Economist* wrote .

The magazine reserved its sharpest criticism for Prime Minister Yoshiro Mori and his cabinet for continuing to “beat a retreat from many economic reforms”.

“Mr. Mori seems to spend more time throwing parties in his rural constituency than applying his mind to pressing affairs of state. The leadership of the Liberal Democratic Party (LDP), which dominates the coalition government, is weakening almost by the day: most recently, Mr. Mori has lost one of his few friends in the government, the chief cabinet secretary, Hidenao Nakagawa. So dim are the party's immediate prospects that nobody even wants to take Mr. Mori's place. Everybody but the LDP, it seems, can see the awful train wreck that lies ahead for the government's dreadful finances. But there is no word about how to clean things up.”

Reflecting the demands of international financial capital, which is eager to grasp the opportunities which could arise from increased penetration of the Japanese economy, *The Economist* put forward what it called a “modest agenda” for reforms.

It would include “one or more items from the following list: in financial services; privatise the vast post office savings bank and the Housing Loan Corporation, which dominates the mortgage market; in telecoms, break up Nippon Telegraph and Telephone, which shuts other carriers out of the market, and set up an independent regulator; set up independent regulators for the electricity and gas sectors, and accelerate deregulation; change the rules that foreigners can offer legal services; reform land and inheritance tax so that owners have an incentive to sell property; strengthen competition policy and set the trust-busters loose on the big keiretsu, the corporate groups that still choke competition; and introduce some semblance of a market economy to the agricultural and construction industries.”

However this “modest agenda” would see nothing less than a complete reshaping of long-established economic structures of Japanese capitalism, with unpredictable economic, social and political consequences.

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact

© World Socialist Web Site