Japan government package fails to win support

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International markets and major financial interests have given the thumbs down to the Japanese government's latest economic package, declaring that it has done nothing to address the critical issue of corporate and financial restructuring.

The release of the package on Friday was preceded by unusually frank comments by finance minister Kiichi Miyazawa. He began by telling a Lower House budget committee meeting early last week that the economy was in “critical recession”. The reality, he said, was that household spending was not recovering and that “we just cannot keep saying that it will take some time until the economy recovers. The government needs to do something.”

This was followed two days later by a statement to parliament, on the eve of the release of the package, that the fiscal situation was “close to collapse” and required “fundamental financial restructuring.”

But as far as the major financial interests were concerned Miyazawa's pre-package rhetoric was not matched by the actual measures announced. While there was no further increase in government spending, the plan did not advance proposals to deal with the billions of dollars of bad debts held by the banks.

The main proposals were aimed at trying to attract money into the falling stock market and real estate through tax incentives, accompanied by calls for the Bank of Japan to adopt a “quantitative easing” of monetary policy.

But any hopes the government had that the announcement of the plan might reverse the stock market fall were soon dashed. According to Japan's largest stock brokerage firm Nomura: “Although many of the measures are welcome, there is nothing in this package to excite.” One major disappointment, it said, was the absence of specific measures to accelerate the disposal of bad loans in the banking system.

ABN Amro Japan economist Vincent Musumeci commented: “This is not a package that will help solve the real problems, it is aimed at keeping the Liberal Democratic Party in power. These measures are not going to convince the market, it is just the government crying wolf again on reform.”

The general international reaction was summed up in a March 10 *Australian Financial Review* article entitled, “Japan too sick for LDP's ‘cure'”. “In one welcome change from past packages, which have done little for the economy except add new debt, there were no new public works spending promises. But there was nothing in the package to address what many analysts see as the fundamental problems with the economy at the moment; the bad debt overhang in the banking system.”

Financial markets, it continued, had been “looking for something radical, such as measures for taking bad debts off the banks' books.”

The absence of any proposals for government spending amounted to an admission that the 11 stimulus packages, totaling 128 trillion yen (just over $1 trillion) in the past decade, have failed to lift the economy out of stagnation and at best have just kept it afloat. But the absence of economic growth means they cannot be continued.

Total public debt is now 666 trillion yen, close to $6 trillion, and represents 130 percent of gross domestic product. It is growing at more than 10 percent of GDP per year. The cost of debt servicing has risen from 30 percent of the tax revenue to more than 70 percent in just over a decade.

The incessant demand of financial markets is that Japan carry out a radical restructuring of the banking sector through the removal of bad debts and driving ailing firms to the wall. A recent article in the *Washington Post* entitled, “As Japan's Economy Sags, Many Favor a Collapse” painted a scenario of “restructuring” and pointed to the enthusiasm with which it would be greeted in certain quarters. “A shrinking economy? Falling stock prices? Foundering banks? Massive layoffs? Bring it on say some. ‘Yes of course!' said Yoshiaki Murakami, who worked at Japan's powerful Ministry of International Trade and Industry until two years ago. Murakami, 41, snaps impatiently when asked if he's suggesting that Japan would actually benefit from an economic crisis. ‘A crisis would be good! Good, good, good, good, good!'”

But the program of “restructuring” demanded by financial markets would spell devastation for the small and medium size businesses which employ almost 80 percent of the Japanese workforce.

As a recent comment in the *Asiaweek* magazine noted: “Push banks to cut off bad debtors and thousands of small businesses will die. End pork-barrel spending and construction companies throughout the country will go belly-up. Lift trade restrictions that limit domestic competition and mom-and-pop retailers will close up shop. With only a minimal social safety net, the owners and employees of the affected firms would face economic devastation.

“And the victims of creative destruction will not suffer in silence. These are the very constituencies which have provided the votes—and the funding—that have kept the Liberal Democratic Party in power for almost all of the past five decades. Tackling the inefficiencies of Japan Inc. would be the equivalent of the LDP signing its own death warrant as the country's dominant political force.”

The explosive social questions at the heart of the “restructuring” program can be gauged from a recent white paper on homelessness produced by the Tokyo metropolitan government. It showed that over the past five years there has been a 1.7 fold increase in the city's homeless population.

According to the report, some 70 percent of the 6,000 homeless people inhabiting the parks and streets had lost their jobs through restructuring, and 80 percent indicated they were still seeking employment. Two thirds of the homeless had held stable positions as white-collar workers in management or clerical positions.

If the demands of the financial markets for “restructuring” proceed, either as a result of government policy, or as the consequence of a collapse of the Japanese economy, these figures will be multiplied many times over.