

Koizumi promises a plan as debt problems deepen

Joe Lopez**26 February 2002**

In the lead-up to the visit by US president Bush last week, the Japanese government called for a plan to address the problem of deflation and bad debts in the banking system. But no one believes that the latest announcement is going to resolve the mounting problems of the Japanese economy.

Prime Minister Junichiro Koizumi instructed the Council on Economic and Fiscal Policy to devise a plan to address four main areas, including the speeding up of the disposal of non-performing loans held by the debt-ridden Japanese banks and a further easing of monetary policy by the Bank of Japan.

Details of the plan are to be released at the end of the month. However the money markets have reacted negatively, calling it a stop-gap measure and simply an attempt by the administration to create the impression that it is pressing ahead with reforms.

“This is the same old stuff that gets dragged out every single time. We’ve heard it again and again. Nothing ever changes,” Shinji Nomura from Daiwa Securities commented.

“A ‘comprehensive economic support package’, and they throw it together the week before a visit from President Bush,” lamented Tsuyoshi Segawa from Shinko Securities.

Recent data plus a threat from the credit rating agency Moody’s Investors Service point to deepening problems in the Japanese economy.

Moody’s has announced it is considering downgrading Japan’s domestic currency credit rating by as much as two notches to Aa2. In the words of a recent article in the *Financial Times*, this would “knock Japan out of the G-7 league and place it at the same level as Latvia and Greece, and below Botswana and the Bahamas.”

Japan experienced a 0.5 per cent decline in Gross

Domestic Product (GDP) for the third quarter last year. This is its third recession in less than a decade and many analysts believe this one will be the longest.

Corporate bankruptcies again rose in January for the fifth consecutive month in a financial year which will see a record number of companies go bust.

According to Tokyo Shoko Research, a total of 1,543 companies collapsed last month, an increase of 10.6 percent from a year earlier, with liabilities of 1.43 trillion yen (\$10.8 billion).

One of the most significant failures was the Sogo Shinkin Bank, the fifth largest credit union in the Osaka area. Its collapse is said to have been a product of the fall in real estate and land prices and lending associated with the bubble economy of the 1980s.

Shokusan Jutaku Sogo Co, a large home building firm, also filed for bankruptcy with debts of 13.5 billion yen. It has become a victim of the decrease in housing starts, which fell to an 18-year low in 2001.

Approximately 16,000 workers were employed by companies that went bankrupt in January. The number of workers losing their jobs through corporate collapses continued at a rate of over 15,000 for the fifth consecutive month.

The Finance Ministry announced last week that Japan’s current account surplus in 2001 fell 12 percent from the previous year, marking the first fall in two years. Exports fell 5.9 percent for the year, mainly due to the global slump in the information technology sector.

Against the backdrop of this economic news and skepticism about Koizumi’s latest economic measures, Bush urged the administration to press ahead with reform plans and expressed confidence in Koizumi.

“I’m confident in this man’s leadership ability; I’m confident in his strategy and I’m confident in his desire

to implement that strategy,” Bush told a Tokyo press conference.

Following his discussions with Koizumi, Bush was even more fulsome in his praise. “It takes somebody who’s willing to spend capital—the political capital—to get the agenda done. So my main focus of this meeting was to judge intent and desire and willingness to work hard to achieve a bold agenda. And having listened to the prime minister at length today and looked him in the eye, I feel very confident that that’s precisely what he is going to do—pursue a bold agenda.”

However the money markets are far from convinced and there was criticism of Bush for being soft on the Japanese leadership for its failure to tackle the vested interests in the Liberal Democratic Party that are blocking the so-called reform process.

A measure of the growing frustration in these circles was provided in comments by Morgan Stanley Dean Witter analyst Barton Biggs. Describing himself as “bored and baffled by the frozen paralysis in Japan,” he said: “I am so analysis saturated, so jaded, that I just skim it. I have heard it all before and nothing ever really happens anyway. Once upon a time, I fantasised that Prime Minister Koizumi was an economic messiah like Thatcher or Reagan who would lead Japan out of the wilderness. That dream is fading fast.”

As the hopes of the financial markets for a turnaround fade, the financial problems are continuing to grow, posing dangers for the stability of the world economy as a whole.

As an article in the latest issue of the leading US foreign policy journal *Foreign Affairs* put it: “Japan is approaching its financial limits. Government debt already exceeds 130 percent of GDP. Add in other liabilities such as unfunded pensions, other public-sector debts, and contingent liabilities such as government guarantees for troubled medium-sized companies then the number grows to well above 300 percent of GDP. Goldman Sachs’ vice chairman for Asia estimated debt to be above 400 percent. Such debt is bearable now only because of Japan’s interest rates, which hover near zero. By mid-decade, if Tokyo’s current policies are continued, interest rates will begin to rise as they incorporate substantial risk premiums. At that point, Japan’s economy will simply collapse, possibly taking much of the Asian and world economies with it.”



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