

OECD predicts bleak outlook for Japanese economy

Joe Lopez**6 December 2002**

The Organisation for Economic Co-operation and Development (OECD) has painted a grim picture of Japan's economic prospects and called on the government to accelerate economic restructuring.

According to the OECD Economic Survey of Japan released last month: “[The] Japanese economy remains in a serious deflationary situation even while experiencing a cyclical recovery phase in mid-2002, underpinned by inventory correction and a sharp pick up in exports. But the recovery is too narrowly based to represent a break with the pattern of generally low growth experienced through the 1990s.... All in all the economy may grow by only around 1 percent per annum to the end of 2004 with deflation continuing.”

Referring to Japan's dependency on exports, particularly to the US, the OECD warned: “The balance of risk is now on the downside given signs of slower growth in the world economy and the possibility of a further deterioration in financial conditions, which might lead to a worsening of deflation.”

The report commented: “Japan is faced with a formidable task of managing a transition from the system that once worked well but is now ill-adapted to a changing environment. Reforming that system is politically difficult because of well-entrenched vested interests. Those opposing reform must realise that there is no alternative to revitalising the economy through structural reform efforts and that there is no more time to be wasted.”

The OECD's remedy is the same as it has advocated over the past decade: a sweeping restructuring of the highly indebted Japanese financial system, the deregulation of the domestic economy and the further undermining of the conditions of Japanese workers. Such “shock therapy” would lead rapidly to the bankruptcy of thousands of unprofitable companies and

the destruction of millions of jobs.

Prime Minister Junichiro Koizumi took office last year, pledging to carry out far-reaching economic restructuring, but has since backed off and resorted to the pump-priming measures of his predecessors. In late November, the government announced another mini-budget aimed at increasing spending on public projects, providing a safety net for small businesses and the unemployed and shoring up declining tax revenues. The stimulus package allocated 1.5 trillion yen (\$US12 billion) for public works and another 1.5 trillion yen for the unemployed, although no details were specified.

The package has been widely ridiculed. It will increase public debt, which is already running at around 150 percent of GDP and threatening to trigger a further downgrade by credit rating agencies of Japan's sovereign debt. The amounts being laid out will have little impact on the country's high levels of unemployment. “Even if the number had an extra zero at the end and was 10 times the amount, getting out of deflation isn't possible with just public works,” stated one economic analyst.

A host of statistics point to Japan's intractable economic crisis and the immense difficulties that already confront millions of Japanese families. Following the release of the OECD report, the Bank of Japan downgraded its outlook for the Japanese economy for the first time in 11 months, due to a slump in exports and falling industrial production. Industrial production declined 0.3 percent in September.

The Bank of Japan announced that although the economy had stabilised as a whole, “there is greater uncertainty towards recovery” and signs that “domestic demand exports were losing their momentum”. Consumer prices continue to decline, falling 0.7 percent in November on a year-on-year basis for a record 38

straight months.

Unemployment is continuing to grow, as companies scale back hiring and replace full-time jobs with casual, part-time and short-term contracts. Japan's official unemployment rate rose to a post-World War II high of 5.5 percent in October. Unemployment for men jumped to an all-time high of 5.9 percent and for women to 5.1 percent, up from 4.9 percent in September. The official number of people out of work rose to 3.62 million in October, up 100,000 from a year earlier and the 19th consecutive monthly increase.

These official unemployment figures are severely understated. According to a recent government report, some 1.99 million people, who were out of work between July and September, were not included in the official jobless statistics because they were deemed to have stopped looking for a job.

According to a recent report in the *Yomiuri Shimbun*, those who have lost jobs because of corporate restructuring and bankruptcies increased by 390,000 from a year earlier to 1.53 million. The number of jobless men aged between 35 and 44, the main breadwinner in most Japanese families, grew by 60,000 from a year earlier.

“Among the employed, the number of permanent employees, mainly regular company workers, declined by 660,000 from a year earlier, falling for a record 15th consecutive month. But the number of company employees on contracts lasting less than a month, who are easy targets of corporate employment adjustments, rose 440,000 from a year earlier,” the report stated.

Describing the current scenario facing companies with falling prices, profits and declining consumer demand, Masahi Murata, an economist at UFJ Institute, commented: “Companies had no choice but to cut more jobs and wages because their profits were so meagre under the current economy.... Workers, for their part, continued to worry about their future and job security and had no inclination to spend freely.”

Consumption by working class families accounts for about 60 percent of total consumer spending, which in turn is approximately 60 percent of Gross Domestic Product. The income of wage and salary earners is falling, however, due to cutbacks to bonuses, overtime and unemployment. The average monthly income of such households fell 1.6 percent and the amount of disposable income decreased 1.4 percent. With workers

concerned about the worsening situation, spending by wage-earning households fell 0.7 percent in October from a year earlier.



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