Deepening economic crisis in Japan

Nick Beams
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Little more than 20 years ago, Japan was being held out as the new economic model destined to become the wave of the future for global capitalism. Today, it faces a mounting economic crisis, providing a stunning refutation of the claim that China or other so-called “emerging markets” can form the basis for a stabilisation of the world economy.

This week it was announced that its economy, the third largest in the world after China and the US, had contracted at an annual rate of 3.5 percent. It now faces the prospect of entering a recession—defined as two consecutive quarters of negative growth—for the fifth time in the past 15 years.

Prime Minister Noda warned that the situation was “severe” and said the government would meet it with a “sense of crisis.” But his words only served to underscore the failure of successive governments to revive the Japanese economy since the collapse of the real estate and financial bubble at the beginning of the 1990s.

Noda announced he would dissolve the lower house of parliament on Friday, triggering an election on December 16 that is expected to remove his Democratic Party of Japan from power.

The latest quarterly contraction was the seventh since the collapse of Lehman Brothers in September 2008 and the onset of the global financial crisis. Significantly, the contraction of 0.9 percent over the three-month period was chiefly a result of the 0.8 percent decline in export revenues, on which Japanese capitalism has been dependent throughout its post-war history.

Over the past two decades, recession has become the “new normal” for the Japanese economy. But the latest decline is even more significant than those that have occurred previously. This is because, for the first time since records began in 1985, the country experienced a deficit in the September quarter current account, measuring the flow of money in and out of the Japanese economy. The monthly trade balance, which has been in surplus for years, also went into deficit.

In August and September, eight of Japan’s nine export categories showed a year-on-year fall. Business investment also fell by 3.2 percent for the quarter, the sharpest fall since the 5.5 percent decline in April-June 2009.

The economic contraction is most marked in the country’s major corporations, whose iconic brands once enjoyed a dominant global position. The electronics goods manufacturer Sharp issued a statement earlier this month that there was “material doubt” that it would be able to stay in business after suffering a second year of record losses. The company has been forced to mortgage its headquarters building and is selling overseas factories, as well as cutting wages and jobs for the first time since 1950.

Panasonic is also in trouble, having projected a second consecutive loss of $10 billion.

While not faring as badly as these two electronics giants, Sony has had its debt rating downgraded by Moody’s to just above junk status.

All three companies have been severely impacted by price falls in flat screen televisions and other household consumer goods. But the malaise extends far beyond the electronic goods industry. According to one analyst: “Japanese corporates are, to put it bluntly, not really making money.”

While some of the decline can be put down to the fact that Japanese firms, especially its electronics giants, have been outflanked by lower-cost rivals, there are broader processes at work that reflect trends in the world economy as a whole.

At the end of the 1980s, Japanese assets were the most highly valued in the world. But this was largely a consequence of a massive real estate and financial bubble. Its collapse, starting in 1990, saw the Nikkei stock market index fall from a high of almost 39,000 to around 9,000, where it stands today.

Over the past two decades, successive Japanese governments, together with the Bank of Japan, have attempted to revive the economy with stimulus packages and ultra-cheap credit. All to no avail. The economy has followed a now familiar pattern, as any economic growth is followed shortly thereafter by a slide into recession.

As a result, Japan's gross domestic product has remained stagnant. In 2011, its gross domestic product was 537 trillion yen, the same as 2005. When the GDP figure is adjusted for inflation, the Japanese economy is the same size as it was in 1993.

However, the economic situation today is becoming more serious because of the deepening downturn in the US, Europe and the rest of the world, which is hitting Japanese exports, thereby impacting on the financing of government debt.

The Japanese government is the most indebted in the world. Government debt in the US is around 100 percent of GDP; in Italy, 120 percent; in Greece, 150 percent. But in Japan it is 230 percent, greater than the debt of all 17 members of the euro zone combined.

So far, it has been largely financed by internal resources. But if the trade and current account balances continue to run a deficit, a situation that is highly likely given the deepening world slump and the role of China and other low-cost countries as the world's major export platforms, Japan will become ever-more dependent on international markets for its finances. Any contraction in the flow of funds or rise in interest rates from their present historic lows could set off a financial crisis.

The developing crisis of the Japanese economy is of global significance, and not only because it is the world's third largest. The program of "quantitative easing" and its variants being carried out by the US Federal Reserve and other major central banks were first developed in Japan. But instead of bringing about an economic revival, they have created the conditions for a major financial crisis.

The Japanese economic crisis has a political dimension as well. It signifies that the Japanese working class, like its counterparts around the world, will be driven into major social and political struggles in the coming period.

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