

Japan's Economy: the Strongest Crisis in Postwar Years

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The world financial crisis has struck Japan's economy more heavily than the economies of other countries. In order to emerge from the crisis the Japanese government put an emphasis on the Keynesian methods of regulation, which consist in pumping state financial means into the economy with a view to expanding domestic demand and eliminating disbalance between demand and supply.

Key words: *Japan, world financial crisis, recession, "bubble economy", economic incentives, unemployment, deflation, sales markets, domestic demand.*

Steep Dive after Prolonged Upsurge

One of the specific features of the present economic crisis in Japan is that it started after the end in October 2007 of the longest economic boom in the country's postwar history. It began in February 2002 and lasted 12 months longer than the one called Izanagi boom from November 1965 until July 1970.

The boom of the early years of 2000 was based on large-scale export and big capital investments in production equipment. At the same time the population received practically no dividends from that boom, because wages and salaries grew very slowly at the time. It is important to note that personal consumption made an insignificant contribution to that economic boom.

The longest recession in postwar Japan took place after the second "oil shock" and it lasted 36 months – from February 1980 until February 1983. The present recession may turn out as long as that one, which is connected, first and foremost, with the world financial crisis.

The real GDP of Japan dropped by four percent in January – March 2009, as compared with the preceding quarter. In annual calculation it means reduction by 15.2%, which was a new postwar record after the defined index of 14.4% for the

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period from October to December 2008.¹ Prior to that, the biggest drop in annual calculation was registered in January-March 1974, when the country's GDP decreased by 13.1% due to the first "oil shock".

The data for the first quarter of 2009 show that the Japanese economy continued to rapidly decline. They also show that Japan's economy experienced the biggest downfall among the world's industrially developed countries. In the United States, for example, it amounted to 6.1% in January-March 2009, and for 10 countries of the European zone the figure was about 10 percent.²

The main factor which determined the present sharp drop in the GDP is a reduction of demand for Japanese commodities on foreign markets, primarily in the United States. In the first quarter of 2009 Japanese export dropped by 20 percent, as against the fourth quarter of 2008. This is the biggest drop after the one in the first quarter of 1975 (by 9.7%). For the first time in the country's history foreign demand made such a negative impact on its real GDP.

The sharp decline of the GDP in the fourth quarter conditioned its curtailment for the entire 2008 by 0.6 percent, as compared with the preceding year. The annual GDP was in the negative for the first time in the past nine years, after 1999, when it decreased by 0.1 percent. The nominal GDP in 2008 also decreased – by 1.6 percent. This was the first case for the past five years.³ In the 2008 fiscal year⁴ the GDP dropped by 3.5 percent.⁵

However, such a decline of the GDP has been conditioned not only by the unprecedented drop in the demand for Japanese commodities on foreign markets, but also by a reduction in the three main spheres of domestic demand: investments in equipment, personal consumption, and purchases of housing.

In the 2009 fiscal year the government of Japan envisages a decline of the real GDP by 3.3 percent, although at first it planned zero growth for the year.⁶ This will mean a record drop of the GDP for two years in succession, after it decreased by 1.5 percent in 1998.⁷

At the same time the Central Bank of Japan predicts that the drop rates of the GDP in the 2009 fiscal year will amount to 3.1 percent, and a rise will begin in 2010, and its rate will equal 1.2 percent.⁸ As to forecasts for this year, the real GDP of the country, by the estimates of the IMF, will diminish by 5.8 percent, and its moderate recovery will begin in 2010 and comprise 0.5 percent.⁹

Evidently, to predict the economic situation in Japan for the near future is a difficult task, which can be explained by a variety of external and internal factors influencing it. However, the results for 2008 and also the data for the first quarter of 2009 show that the near future will hardly be simple for Japan.

All Indices Go Down

Private investments in basic capital in Japan diminished by 10.4 percent in January-March 2009, that is, for the fifth quarter in succession, whereas in the

fourth quarter of 2008 this index decreased by 5.4 percent. The favorable balance of the current operations of the country in the 2008 fiscal year decreased by 50.2 percent (to 12.23 trillion yen), as compared to the preceding year. It diminished for the first time in the past seven years. This curtailment was the biggest since 1985, when the present format of the balance of payment was introduced. The reason for such a decline was a big drop of export caused by the global recession.

The balance of trade in commodities and services was negative, a record low – 1.003 trillion yen, whereas in the 2007 fiscal year it was positive and equaled 9.09 trillion yen.¹⁰ These figures vividly demonstrate the vulnerability of the Japanese economy with regard to a drop in foreign demand. Up to the 2008 fiscal year Japan had record-high positive indices of the balance of current operations for five years.

Experts assess that one can hardly expect two-digit figures of favorable balance in the foreseeable future, however, it can reach positive values already in the 2009 fiscal year itself on account of the drop in the price of oil, on whose import Japan depends practically by 100 percent.

In commodity trade the favorable balance decreased by 90 percent, that is, to 1.17 trillion yen, in the 2008 fiscal year, which is the lowest index during the entire postwar period. Export dropped by 16.3 percent (to 67.72 trillion yen), and import – by 3.4 percent (to 66.55 trillion yen).¹¹

Due to the curtailment of foreign demand industrial production is going down in Japan. In February 2009 it decreased by 9.4 percent, as compared with the preceding month. This means that output diminished for five months in succession, which was the longest period of drop since 2001.¹²

Consumer expenditures, which account for over 50 percent of Japan's GDP, diminished by 1.1 percent in the first quarter of 2009. For the first time these expenditures were curtailed for three quarters in succession. This was due to the fact that the population did not want to spend their money to purchase expensive commodities in view of the worsening situation in the sphere of employment.

A drop in the demand for goods produced by Japanese enterprises on foreign and domestic markets has resulted in a wave of bankruptcies in the country. In the 2008 fiscal year the number of corporative bankruptcies grew by 13.39 percent as compared with the previous year, and reached 16,146 cases, which is a record figure for the past six years. The sum of the debts of the bankrupt companies grew by 2.5 times and reached 14.02 trillion yen. The number of bankruptcies was growing for three years in succession.¹³

A decline in output was registered in the ten leading sectors of industry. The output of steel diminished by 13 percent (to 105 million tons), which was Japan's record drop. It was caused, first of all, by a decrease in demand for steel in the automobile and other industries.

In early 2009 Japan's stock exchanges registered a sharp decline in share quotations. The Nikkei index dropped to 7,085.03 points on March 9, the low-

est level in the past 26 years. The broader TOPIX index also finished that day at the lowest level for the past 25 years – 710.53 points.¹⁴

For the first time during the past seven years Japan curtailed the payment of dividends. The dividends of 2,700 firms registered at the stock exchange were, according to estimates for 2008, 6.09 trillion yen, which was less than in the previous year by nine percent.¹⁵ It should be noted that the rates of reduction of dividends proved lower than the rates of decrease of profits. This shows that the companies' management tried to calm down shareholders in the conditions of a strong recession and vague economic prospects.

Due to the recession, the total sum of the sales of the companies registered at the 1st section of the Tokyo Stock Exchange (about 1,350 big Japanese companies) decreased in the 2008 fiscal year by 48.3 trillion yen, compared to the preceding year, and amounted to 587.0 trillion yen. At the same time net losses of these companies reached 3.2 trillion yen. The reduction rates of sales (by 7.6%), as well as the size of losses, were the worst in the entire history of the country. The size of losses exceeded the 2001 index by three times (966.9 billion yen) – the only year when the total sum of net balances was negative.¹⁶

The total sum of losses suffered by the nine biggest companies producing electronic commodities comprised 2.2 trillion yen,¹⁷ and the losses of just one corporation Panasonic equaled 378.96 billion yen.¹⁸ The total sum of the losses of the ten leading companies producing automobiles amounted to 320 billion yen in 2008, as against 4.7 trillion yen profit a year earlier.¹⁹

The volume of sales of new automobiles in Japan in the 2008 fiscal year dropped by 15.6 percent – up to 2,891,901 units, the lowest level during the past 38 years.²⁰ The decrease in the production of automobiles, including their production abroad, amounted to 4.14 million units, which equals the annual production volume of such big corporation as Honda Motor.²¹

The Toyota Motor, the biggest automobile producer in Japan and one of the biggest in the world, suffered net losses in the 2008 fiscal year amounting to 439.94 billion yen, and its losses in the year 2009 are expected to reach 550 billion yen. The volume of sales will drop from 7.57 million vehicles in 2008 to 6.5 million in 2009.²² The output of cars in Japan proper will be 2.8 million, that is, for the first time in 31 years it will be lower than three million. According to forecasts, other Japanese companies will also suffer great losses in the 2009 fiscal year.

In 2008, the volume of housing offered for sale substantially diminished in Japan, and the price of land in residential neighborhoods, as well as that used for commercial purposes decreased, whereas in 2006 and 2007 it had grown. The cost of land for dwelling houses was reduced by 3.2%, and that used for commercial purposes – by 4.7% in 2008.

The cost of land even in one of the most fashionable districts of Tokyo – Gindza – dropped by 2.1%, although last year one square meter of land there cost the astronomical sum of 38.2 million yen (about 380,000 dollars).²³ One of the

most unique features of Japan is that despite a serious slump in the economy, the cost of land there is as high as before, according to international standards.

The exacerbation of the present economic crisis in Japan has also been caused by the unprecedented drop in demand for its cars and electronic goods on foreign markets, above all, in the United States and Europe, inasmuch as the automobile and electronic industries are the two locomotives of the Japanese economy.

The deteriorating economic situation increases pessimistic sentiments in the business community and among the broad sections of the Japanese population. The "index of business sentiment" (*tankan*) calculated by the Bank of Japan on a quarterly basis, was a record low in the first quarter of 2009. It surpassed, in the "level of pessimism", the indices of the "lost decade" of the 1990s, when the economy was in the state of stagnation after the collapse of the "bubble economy" based on the inflated assets and sky-high prices on real estate, above all, land.

The principal difference between the present recession and the economic slump of the 1990s lies in that Japan was able to extricate itself from the economic impasse then thanks to the steady demand for its commodities on foreign markets, primarily in the United States and Europe. But it was a drop of foreign demand on those markets that was mainly responsible for the current crisis in Japan.

Along with this major factor of the present recession there is a relatively low level of consumer demand in the country due to the unwillingness of the population to spend money. According to the data of the Bank of Japan, by the end of March 2009 the financial assets of household economies, although they diminished by 3.7% as compared with the preceding fiscal year, constituted an astronomical figure of 1.41 quadrillion yen. However, that was the lowest level in the past five years.²⁴ These assets did not diminish as a result of increased expenditures of household economies, but it was due to a drop in the market cost of shares and other personal financial assets of the Japanese.

The government, despite its strenuous efforts, has not succeeded in making these personal savings serve the growth of domestic demand. Judging by public sentiments, it will not succeed in doing so in the future either. According to the government survey carried out in March 2009, about 70 percent of the Japanese have pessimistic feelings with regard to the economic prospects of the country, and 58 percent have similar feelings concerning the sphere of employment. These indices were the highest since 1998.²⁵ Evidently, in these conditions people prefer not to spend their money, but rather save it for a rainy day.

Deflation Returns?

In the 1990s Japan had experienced the deflation. The government successfully got rid of it in the early 21st century by pumping enormous sums of money into the economy. In connection with the present recession anxiety has been grow-

ing in Japan that this alarming phenomenon may return. The rate of growth of consumer prices, having reached the peak in the middle of 2008, began to reduce slowly and, according to government estimates, increased only by 1.1 percent in the 2008 fiscal year. In 2009 they will go down in comparison with the preceding year by the record 1.3 percent. At the same time wholesale prices increased by 3.3 percent in the 2008 fiscal year, and in 2009 they will drop by 5.5 percent.²⁶

According to the data of the Central Bank, the growth of consumer prices in the 2008-2009 fiscal years will be negative, comprising minus 1.5% and 1.0% respectively.²⁷

Deflation may lead to a sharp decline in the profits of corporations, which, in its turn, will have a negative impact on the situation in the sphere of employment, wages and salaries, and consumer expenditures. And this will cause a further drop in consumer prices. If Japan enters this “vicious circle of deflation”, it may seriously hamper its escape from the present recession.

Meanwhile, according to the Bank’s data, wholesale prices in January 2009 in annual calculation have already dropped by 0.2%, (compared with January 2008) for the first time in five years.²⁸ This could happen due to a sharp drop in the prices of oil and other imported raw materials.

In the view of certain Japanese experts, a decrease in consumer prices and a sharp rise in the value of the yen will stimulate deflation tendencies right up to August 2009. After that the deflation due to the curtailment of wages and salaries may last until 2011.²⁹ However, the same experts deny the possibility of a drop in prices turning into a dangerous “spiral of deflation”, and assert that the rates of the decrease in prices will be quite moderate.

Besides, they note that in contrast to the past year of skyrocketing prices, both producers and salesmen will play into the hands of consumers in the fight for their money, by reducing prices in 2009. This fight will benefit the consumers, but it can hit hard the profits of the corporations and contribute to deflation.

It is evident that the suppression of deflation, if it reemerges, can be one of the most difficult tasks for the Japanese government in its struggle against the present recession in the conditions of the global financial-economic crisis. As the British *Economist* writes, Japan is now facing the return of the ghost of deflation, which, she thought, she managed to drive away.³⁰

Some Japanese analysts believe that in order to combat possible deflation the Bank of Japan will have to set the aim to reach “positive indices” of inflation. However, it could only be reached with the help of government money being pumped into the economy.

The Financial System Fails

It is an accepted stand that as a result of the improvement of the bank system achieved after the “lost decade”, Japanese banks became more stable and

effective than their rivals in the developed countries of the West. They suffered less from the mortgage crisis that occurred in the United States. Moreover, certain Japanese banks have bought up big American financial institutions, which have found themselves on the brink of bankruptcy due to the crisis.

However, the results of the 2008 fiscal year show that Japanese banks themselves are faced with serious problems. For example, three “megabanks” of Japan suffered from net losses in 2008. They include Mizuho Financial Group, Sumitomo Mitsui Financial Group and Mitsubishi UFJ Financial Group.

The losses were caused by the reduced value of the shares held by them. A great role in this has been played by the fact that many banks possess shares together with the related trade and industrial companies. Besides, the losses have gone up due to the growing size of “bad debts”. And the growth of these debts is due to the numerous bankruptcies of following companies taking place in the conditions of the recession.

Besides, the balances of banks suffered losses from the investments they had made in American and European financial institutions. The Mizuho Bank lost about 80 billion yen in the form of preference shares, which it had purchased from the notorious American Merrill Lynch investment bank.³¹ In all, Mizuho has shown net losses for the 2008 fiscal year running into 558.8 billion yen, whereas in the preceding year it earned the net profit amounting to 311.2 billion yen. Its rival – the “Sumitomo” Bank showed the related indices – 373.5 billion yen and 461.5 billion yen, respectively, and the Mitsubishi Bank’s losses comprised 42 billion yen that year.³²

The Norintyukin Bank, which is the chief creditor of agricultural cooperatives, suffered net losses running into 620 billion yen. The losses of the biggest Japanese company Nomura Holdings dealing with securities amounted to about 700 billion yen.³³ The aggregate net losses of the main banks and securities and insurance companies (not counting life-insurance companies) comprised 3.2 trillion yen, and the nine biggest life-insurance companies’ losses – 9.5 trillion yen.³⁴

The total sum of “bad debts” of Japanese private banks by September 2008, was quite imposing – 12,294 trillion yen, although in 1997 the volume of “bad debts” had exceeded this sum threefold and reached 34 trillion yen.³⁵ In 2008 these nine giant-banks showed the “bad debts” of 4,191 trillion yen and 110 regional banks showed the same of 7,952 trillion yen. The share of “bad debts” in the total sum of the credits issued by banks comprised 2.5%.³⁶ It is far from the 10-15% mark, which is considered critical, yet the tendency of growth can well be noticed.

With a view to raising the level of their own capitalization, Japanese banks plan to place their bonds on the stock exchange. For this purpose the Central Bank of Japan began to buy up the shares in possession of private banks. It intends to purchase such shares to a sum of one trillion yen by the end of 2010.³⁷ Thus the Central Bank hopes to induce commercial banks to issue credits to com-

panies more willingly, especially small and medium-sized enterprises which suffer more from financial difficulties.

Finally, the government has postponed for several years the privatization of the Japanese Development Bank, which grants private banks and other financial institutions low-interest loans, with a view to helping private banks with state means. All these measures aim at strengthening the financial system, which is the backbone of the entire economic organism, in the conditions of a strong recession.

Social Tension Is Growing

The economic crisis has exacerbated a number of problems in the social sphere of Japan, above all, the employment situation. The level of unemployment in April 2009 comprised 5%.³⁸ The total number of unemployed increased by 710,000 and reached 3.46 million, in comparison with April 2008.³⁹ Of this number 1.14 million were fired by the employers in connection with the restructuring of their enterprises, or due to other reasons.

An important index in this sphere is the correlation of the number of jobs to the number of people looking for work. This index was 0.46 in April 2009.⁴⁰ It means that per each 100 people looking for job, there were only 46 vacant places.

This index continuously decreased during eleven months in succession and was the most significant from January 1992, when the “bubble economy” began to burst. This index for permanent work places comprised 0.26, that is, was the lowest during the entire history of its existence.

The recession hit the hardest the most unprotected section of workforce – temporary workers. According to the estimates of private organizations, in the spring of 2009 over 400,000 such workers were fired.⁴¹

It's not for the first time that workers in Japan lose their jobs due to recession, but never the social problems caused by it have been so acute. The reason lies in a sharp increase in the number of temporary workers. Their rights are poorly protected by the labor legislation, and this is why it is easy to dismiss them. They can be paid lower wages than permanent workers, and besides, they are evicted from the houses provided to them by their employers, if they lose their job.

According to official figures, the share of temporary workers in the sphere of services grew from 24.6% in 1992 to 39.3% in 2007, and in the production sector – from 17.7% to 22.9% respectively.

Until recently the problem of unemployment in Japan has not been too serious, because the corporations coped somehow with recession through transferring their workers to subsidiary enterprises, restricting the number of new employees taken on the job, filling the vacancies caused by workers' retirement, etc.

However, in the present situation these measures are ineffective even in such companies as the Toyota Motor. This leader of the Japanese economy was

one of the first to have resorted to mass dismissal of temporary workers. The situation is aggravated by fewer opportunities for school and university graduates to find jobs.

According to forecasts by private research institutions, by 2010 another 1.5 million people will lose their jobs, thus raising the unemployment level to six percent. This is not too high index by international standards, but it is quite alarming for Japan. In view of that, one can predict that social tension in Japan will rise in the near future.

Following the price rises, which took place in the summer of 2008, Japan's biggest trade union association – The Japanese Trade Union Confederation (*Rengo*) put forward in early 2009, for the first time in eight years, the uniform demand for an increase of basic wages and salaries. However, the financial crisis and recession, which have caused a sharp deterioration of Japanese business, forced it to drop this demand.

Along with the growing number of bankruptcies and the worsening situation in employment during the deepening financial crisis, more and more Japanese commit suicide. In 2008 more than 30,000 people put an end to their life. The official authorities fear that the number of suicides will grow: in the first four months of 2009 over 11,000 people committed suicide.⁴² By the number of suicides per 100 thousand persons, Japan holds second place in the world's "eight" developed countries after Russia.⁴³

The crisis in the economy and social sphere has resulted in the growth of membership of the Communist party of Japan. Up to the beginning of 2009 it increased steadily for 14 months in succession. Japanese experts explain this by the party's efforts aimed at helping both the working people and the unemployed in the conditions of a drop of the employment level and the deteriorating living standards. It's indicative that the share of young people in growing among the new members of the Communist party.

The aggravating situation in the sphere of public finances has vividly revealed the contradictions between the central government of Japan and the regional authorities. In the course of the liberal reforms carried out by the cabinet of the former Prime Minister Junichiro Koizumi in the early 2000, subsidies to prefectures and municipalities were considerably cut, which led to serious budget difficulties for the local administrations.

These subsidies were largely made up of allocations from the state tax revenues. The current recession dealt an additional blow at the local budgets. Their revenues in the form of the local corporative taxes are expected to drop sharply in the 2009 fiscal year.

In these conditions the governors, who experience an acute shortage of budgetary means, step up their criticism of the central government, which tries to give an impetus to the economy at the expense of broadening public works in the sphere of the infrastructure. In so doing the government demands that the local administrations finance these works, at least partly. However, many governors

oppose this, believing that the government wants to shift the financial burden of extrication from the crisis on to their shoulders.

The problem lies in that the local budgets already experience great difficulties and cannot afford to take an additional burden. In the 1990s, after the “bubble economy” burst, the central government tried to take the economy out of stagnation with the help of considerable financial incentives, which envisaged huge expenditures for public works, also at the expense of the local budgets. This has led to an increase in the already great debt of these budgets. In the 2008 fiscal year the total sum of the debts of the local administrations reached the enormous sum of 197 trillion yen, as against 70 trillion in 1991.⁴⁴

The unprecedented economic crisis has intensified the current debates on the need for a large-scale budget reform. It should radically change the shares of the center and regions in the total sum of tax revenues collected by the treasury. Evidently, the problem of the decentralization of power will be one of the main subjects in the public and political life of the country in the near future.

Stimulation of the to Demand as Central Task

The present crisis has vividly shown that a wide gap between supply and domestic demand is a vulnerable sphere of the Japanese economy. According to estimates, supply exceeds demand to a sum of 20 trillion yen (about 200 billion dollars) a year. This gap has for many decades been compensated at the expense of foreign demand. In other words, it was balanced with the help of the large export of Japanese commodities. However, as we have already noted, the drastic curtailment of demand for these goods on the markets of the United States, Europe and China proved to be the main source of the present unprecedented crisis in the Japanese economy.

Domestic demand remains low. This situation is caused, among other things, by the unwillingness of banks to issue credits to manufacturing and other companies. With a view to reducing the negative effect of this phenomenon, the Bank of Japan has lowered its bank rate to 0.1%. However this measure has not produced the desired result. Having exhausted all measures of monetary policy, the government of Japan turned to the Keynesian methods of economic regulation. It used budget means as the economic stimulant to the maximum.

The state budget for the 2009 fiscal year is of unprecedented dimensions – 88.5 trillion yen. The financial means earmarked in the budget for economic incentives are a component part of the package of incentives contained in the two additional budgets adopted in the 2008 fiscal year.

The total cost of this package amounts to 12 trillion yen. It includes two trillion yen which the government has already begun to distribute freely among the population. Each Japanese citizen will get 12,000 yen (about 120 U.S. dollars), and the adolescents and the elderly above 75 will receive 20,000 yen each. The

said package also includes the lowering of the tax on mortgage credits, and subsidies to the local bodies of power for creating new jobs, and other measures.

In turn, the Central Bank, while lowering its bank rate practically to zero and granting substantial subordinated credits to commercial banks, has decided to buy up the state long-dated bonds on a large scale. This decision was taken in view of the fact that the cabinet of ministers would have to resume the issue of state bonds to impressive sums to be able to finance economic incentives.

Along with this, the government continues to search for new methods of enlarging domestic demand and stimulating the economy as a whole. At the same time it tackles urgent social problems. For example, it plans, as an urgent measure, to give subsidies to people who lost not only jobs, but also housing. Besides, loans will be granted to the unemployed without any guarantees.

A resolute step in this direction is an additional package of incentives for the 2009 fiscal year consisting of a sum of 15.4 trillion yen adopted by the government on April 10. This package is twice as big as the additional budget of 1998, which amounted to 7.6 trillion yen. It pursues three aims: to preclude the further worsening of the economic situation, to improve the situation in the sphere of employment, and to invest in the future economic growth.

The said package will be financed from the additional budget for the 2009 fiscal year and envisages the realization of a whole number of projects and measures aimed at enlarging domestic demand. Three trillion yen are earmarked to finance various corporations, two trillion yen will go to improve the health service and pay children's benefits, including the annual payments of 36,000 yen to children from three to five, and 1.9 trillion yen to bolster the employment. The package also includes 1.6 trillion yen of subsidies to consumers for buying cheap cars and power-saving household appliances.⁴⁵ Besides, the tax on the presents by parents of money up to five million yen to children for acquiring housing by the latter is abolished.⁴⁶ Public works of up to 2.4 trillion yen are also envisaged.⁴⁷

According to the calculations of government experts, the additional budget for the 2009 fiscal year will be able to create from 400,000 to 500,000 new jobs and will contribute to a certain slowing down of the decrease of the GDP.

As a result, the total volume of stimulants for the Japanese economy comprised 56.8 trillion yen in April 2009, including guarantees on credits for small and medium-sized businesses.⁴⁸

However, the problem also lies in that the resources for bolstering the economy are strictly limited. By the end of 2008 the national debt of Japan, including the borrowings of the central government and local administrations, amounted to 170 percent of the country's GDP. The budget deficit has become chronic. At the same time economic stagnation has led to a sharp drop in incomes from corporative and other taxes.

The shortage of state means will be covered by the issue of long-term government bonds. To finance a new package of incentives such bonds will be issued

to a sum of about 10 trillion yen. This will increase the sum of new bonds to 40 trillion yen – the biggest sum in the entire history of the country.⁴⁹ Therefore the Premier Taro Aso actually pigeonholed the budget reform, which was started by the former Premier Junichiro Koizumi in the zero years with a view to putting an end to the budget deficit.

The government has to postpone the target of reaching a positive balance in the budget planned for 2011. According to preliminary estimates, it will be achieved not earlier than in 2019. For this purpose the government is planning, among other things, to increase the consumer tax (analogue of the Russian VAT) from the present five percent to 12 percent. Meanwhile, the budget deficit of Japan, according to experts from *The Economist*, will grow from 1.4% of the GDP in 2008 to 6.8% in 2009 and 7.4% in 2010.⁵⁰

Thus, just one supplementary budget for the 2009 fiscal year equals 3% of the GDP (which is considerably bigger than the 2% agreed at the London summit in early April), and the total package of stimulants amounts approximately to 10% of the GDP. In this context one can state that Japan has entered into an international race with the United States, China and other countries in the maximal injecting of public money into the economy in order to bolster it.

This was all the more necessary in the conditions when the present recession heightens social tension and can destabilize still more the already strained political situation in the country.

However, a paradox lies in the fact that the stubborn power struggle on the eve of the general parliamentary elections⁵¹ between the ruling coalition headed by the Liberal Democratic Party and the opposition in the form of the Democratic Party only hampers the adoption of the effective measures for leading Japan's economy out of the crisis.

With a view to fighting the current economic crisis and transferring the economy on to the orbit of stable development the government evolved a strategy of growth for a period of three years in the spring of 2009. This strategy envisages three directions of activity: first, creating the so-called low-carbon society, that is, a country where the consumption of hydrocarbons as the source of energy will be reduced to the minimum. Secondly, ensuring high life expectancy and better health care of the population. And thirdly, using the creative potential of the nation.

At first glance, these spheres are far removed from the economy. However, by experts' calculations, the investments in the branches connected with the above will create an additional domestic demand to the tune of 40 to 60 trillion yen and 1.4 to two million jobs.⁵² And by 2020 Prime Minister Aso plans to increase the country's GDP by 120 trillion yen and create four million new jobs.⁵³

Finally, Japan intends to use the dynamic growth of Asia and contribute to the twofold increase of the Asian GDP by helping in every way possible the development of the economy of the region and the improvement of the regional infrastructure.⁵⁴ For this purpose the country has already granted 100 billion

dollars to the International Monetary Fund, and apart from that, it will grant 22 billion dollars to boost trade with developing countries. Tokyo also intends to render Asian countries official aid for development to a sum of two trillion yen (about 20 billion dollars). Evidently, these spectacular plans are connected with the desire to guarantee for itself big foreign demand in this vast region of the world for the future.

“Surfacing” Is Not Far-off

In the spring of 2009 the Japanese economy began to show encouraging signs that in the near future it can start to recover. In the monthly economic report of the government for June the word “worsening” was not there for the first time in seven months. In it the government said that “the economy has reached the bottom.” The Bank of Japan also stated on July 16 that “after considerable worsening, the downfall becomes slower.” Private experts share this view.

These positive assessments are based on the data about the reduction of stocks in warehouses and the restoration of production. The index of industrial production in April increased by 5.2% as compared to the preceding month. This index was the best for the past 56 years.⁵⁵

Besides, the economy of Japan oriented to foreign markets was influenced by financial impetus and other measures of macroeconomic regulation, which many countries resorted to beginning from the late 2008. Especially great positive influence on Japanese export was made by the restoration of the economy of China, which spent huge budget means for the purpose.

However, according to Japanese experts, although the bottom has been reached and the country's economy has just begun to turn in the opposite direction, it is still at a low level, and the way of its progress is not yet clear. Apprehensions persist that the Japanese economy may again “slide down to the bottom”, depending on the situation in the world economy, primarily in the economy of the United States.

A difficult situation in the sphere of employment and incomes will persist in Japan for an indefinite period of time. The profitability of enterprises remains a great problem as before, and this is why one cannot hope that employment will grow rapidly.

The incomes of the population do not grow either, even while taking into account the summer bonuses. This is why personal consumption will hardly increase soon. The radical change of the financial situation in the United States and Western Europe is still far off, despite its slight improvement, which only adds to uncertainty in the Japanese economy.

There is the view among foreign analysts that the future restoration of Japan's economy will proceed in the form of the Latin letter “L”, but not the Latin letter “V”. It means that the economy will “crawl” for some time along the

“bottom” and only then will it begin “to surface”. According to optimistic forecasts, the “surfacing” may begin at the end of 2009.

NOTES:

1. *The Japan Times*. May 23, 2009.
2. *Ibid.*
3. *The Japan Times*. March 7, 2009.
4. The fiscal year in Japan begins on April 1 and ends on March 31 of next year.
5. *Yomiuri Shimbun*. May 21, 2009.
6. *Ibid.*
7. *The Japan Times*. April 22, 2009.
8. *Ibid.* May 1, 2001.
9. *Yomiuri Shimbun*. May 22, 2009.
10. *The Japan Times*. May 14, 2009.
11. *Ibid.*
12. *The Japan Times*. April 30, 2009.
13. *The Japan Times*. April 28, 2009.
14. *Asahi Shimbun*. March 10, 2009.
15. *The Japan Times*. June 21, 2009.
16. *Asahi Shimbun*. March 23, 2009.
17. *Asahi Shimbun*. May 18, 2009.
18. *The Japan Times*. May 16, 2009.
19. *Asahi Shimbun*. May 13, 2009.
20. *The Japan Times*. February 2, 2009.
21. *Ibid.*
22. *The Japan Times*. May 9, 2009.
23. *Asahi Shimbun*. March 24, 2009.
24. *The Japan Times*. June 18, 2009.
25. *Yomiuri Shimbun*. March 30, 2009.
26. *The Japan Times*. April 28, 2009.
27. *The Japan Times*. May 1, 2009.
28. *The Japan Times*. February 13, 2009.
29. *Ibid.*
30. <http://www.economist.com/displayStory.cfm?story-id=12998246>.
31. *The Japan Times*. April 5, 2009.
32. *The Daily Yomiuri*. May 15, 2009.
33. *The Japan Times*. April 24, 2009.
34. *Asahi Shimbun*. June 1, 2009.
35. *Asahi Shimbun*. April 3, 2009.
36. *The Japan Times*. February 11, 2009.
37. *The Japan Times*. March 13, 2009.
38. *Asahi Shimbun*. June 1, 2009.
39. *Asahi Shimbun*. May 30, 2009.
40. *Asahi Shimbun*. April 1, 2009.
41. *The Japan Times*. March 23, 2009.
42. *Asahi Shimbun*. May 29, 2009.
43. *Ibid.*

44. *Ibid.*

45. *Ibid.*

46. At present, out of more than 1.4 quadrillion yen of personal assets a greater part belongs to elderly persons, and the exceedingly high taxes on inheritance and donation prevent the flow of these enormous means from people of the older generation, who are prone to saving, to younger sections of the population who are more active economically, including consumerwise.

47. *Yomiuri Shimbun*. April 11, 2009.

48. *The Japan Times*. April 11, 2009.

49. *Ibid.*

50. <http://www.economist.com/displayStory.cfm?story-id=13447508>.

51. Elections to the lower house of parliament should take place in September, however, they can be held earlier in the case of the dissolution of the parliament before the scheduled time by the prime minister.

52. *Yomiuri Shimbun*. March 28, 2009

53. *Asahi Shimbun*. April 11, 2009.

54. *Ibid.*

55. *Nihon Keidzai Shimbun*. June 18, 2009
