Seeking Death or Waiting to Die?

- Common Sense on Takenaka's Deflation Policy

The decade-long Japanese economy stagnation since the end of the Cold War comes to a crucial point: to stop the continuing deflation, Japan needs to deal with its banking system ill of more than $400 billion in bad debt that will be unable to recover on their own. Unable to solve this systematic financial ill, the deflation continues, the economy sinking continues.

With the support and approval of the United States, Heizo Takenaka, Japan's chief financial regulator, proposed his "General Policy to Fasten Reform" (October 30, 2002) to fix the ill. Does Takenaka understand what he is talking about? Not really. Even though he acknowledged that his plan will result in the failure of scores of big companies, the real consequence will be much severer than he realized.

A borrower's ability to generate cash flow to service debt is the criterion of whether a loan is good or bad. In Japan, however, most loans were secured by land and rolled over perpetually. The criterion for loans in Japan was not profitability but the expectation of the government's ability to drive up real estate prices. Japanese banks lent far more money than they had in deposits, especially in the 1980's. So since the 1990's, Japanese banks tightened lending and used intensified DCF method to assess borrowing firms especially under the Koizumi administration. For example, compared with 537 trillion yen in 1996, bank loan has reduced 114 trillion yen in June 2002. Under such a harsh pressure, even some healthy growing firms were forced to bankrupt without new loan.

Recovering those loans is not simply a matter of closing certain banks, recapitalizing others and allowing some big companies to fail. Japan's household savings overwhelmingly take the form of bank deposits that carry either explicit or implied government guarantees. In fact, the Japanese government has put public money to save some not-so-big banks in the past decade. People hoped that were exceptional cases, but they were actually the tip of iceberg. Now, already heavily in debt itself, the Japanese government can ill afford to honor these guarantees during a wave of failures brought on by a possible nationwide bank run. In fact, 56 local financial firms (most credit unions) have been closed under Takenaka's Financial Agency in 2002. Takenaka's "anti-deflation" policy intensifies the deflation. Anticipating a possible economical crisis, even most in the corrupt ruling LDP leadership opposed Takenaka's "reform".

Internationally, Japan holds nearly $3 trillion in dollar-denominated assets, many of them ultimately supported by the very deposits that would be withdrawn in a wholesale reorganization of Japanese banking. Those dollars have played an indispensable role in permitting the United States to swell its trade deficits far beyond the levels of most nations. In a time when the world economy becomes more and more dependent on the U.S. economy, the U.S. has been in recession for years without foreseeable recovery. How seriously does the Bush Administration understand that withdrawing Japanese assets from the U.S. will worsen the U.S. economy further?

The U.S. has pressed Japan for a decade to "reform" Japan's economy, i.e., to transform the somewhat welfare-orientated Japanese capitalism into a stock-driven Anglo-Saxon turbo-capitalism. Many Japanese politicians and economists have talked about "deregulation" (kisekanwa) of finance, of utilities, of medical service, and the rest of the entire private sectors for years, but they don't know what that means to Japan. If Japan loses its "sovereignty" on economic policy, with managers firing employees at will, CEOs paying themselves hundred times of workers, a political turbulence overthrowing the Japanese constitution and democracy is guaranteed.

Politically, the "official scholar" Takenaka is perhaps innocent because of his poor knowledge of economy (especially the American economy). It seems he truly believes the Anglo-Saxon "Creative Destruction" dogma. The problem is: as learnt from the British and American lessons, most of Japan's industries, including the traditional manufacturing industries, which brought the "Japanese Miracle", and the "new" IT industry, belong to declining fields. Where is the growing industry? If there exists such an industry, how many percent unemployed work force it can employ?

Thus, the Japanese question becomes: why no responsible Japanese politician to take charge of Japan's economy? why the Japanese ruling class selects a scapegoat to promote a suicidal policy to "save" Japan?

If the Japanese ruling class was at least as modest as before in the Cold War, the banking system ill was not impossible to fix from an early stage. However, since Capitalism "won" the Cold War, the Japanese ruling class forgot what they should do and what they could not do. Unsatisfying at the regime in which banks controlling only one party (the ruling LDP), the Japanese capitalists also wanted to control the opposition, as their American counterpart controlling the two-party system. They succeeded: today, no political force could check the Japanese capitalism. (Only occasionally, ultra-nationalistic politicians, such as Ishihara, could cause them concern when these politicians "threaten" higher tax on banks to raise their own popularity.)

It is clear that the Japanese ruling class knows well that, for them, seeking death is a better choice, a faster path to conclude the dying Japanese economy. They are preparing for the unavoidable failure. That is the reason for the Japanese government to rush at revising its peace constitution and rearming Japan.

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January 2003
Comparative Policy Review
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