Japan announces economic growth plan

by Kathy Wolfe

A new economic growth package totaling 10.7 trillion yen ($87 billion) was announced by Tokyo's Economic Planning Agency Aug. 28. Senior Finance Ministry officials told the press the same day that the huge plan would boost growth in Japan in the 12 months from October by roughly 2.4%, helping the economy approach the government's 3.5% five-year growth goal.

The announcement follows months of discussion of Japan's recession, which is an economy in a booming expansion in comparison with the economic collapse ongoing in the West. While morons in the Bush camp will take credit for "forcing" Tokyo to "prime the pump," in fact the program is not inflationary election-buying, but the same kind of capital-intensive investment program which has already put Japan's economy light-years ahead of the United States.

The program should also quiet the squeals from London and New York about the unsoundness of Japanese banks. It contains provisions to help Tokyo banks offload their weaker debts. Among the measures are the following:

- Expansion of national government public works and other public investment by 8.6 trillion yen ($70 billion), including government purchases of real estate held by Japan's banks against bad loans;
- Another 2.1 trillion yen ($17 billion) in loans from government-affiliated financial institutions for helping private industrial investment, including increased lending by the Japan Development Bank for labor-saving technology of 900 billion yen, and expansion of government lending to small businesses by 1.2 trillion yen.
- Stimulating the stock market by allowing greater investment of public funds; for example, limitations on stock investments by Post Office savings and insurance funds (which most common folk have, rather than bank accounts), will be abolished. The postal saving system's fiscal investment and loan program is huge.

British economists, who have been trashing Japanese banks and bank stocks for weeks, are already attacking the package as "over-optimistic. . . . Government numbers that high are propaganda," said Geoffrey Barker, economist at Baring Securities Japan. Barker told the press Sept. 1 that the Japanese economy faces "serious problems" in the form of sharp declines in bank lending and high inventory levels.

Miyazawa supports the banks

The government, however, will fully back the nation's banks, Prime Minister Kiichi Miyazawa told a Liberal Democratic Party seminar in Nagano Prefecture on Aug. 30. "If a problem will cause instability in the nation's financial system, neither the government nor the Bank of Japan can afford to remain idle," Miyazawa said.

The new $70 billion public works budget, he explained, includes two ways to promote sales of real estate held by banks as collateral on bad loans. First, the government will make large-scale advance purchases of bank-held real estate for massive new public works projects. Further, the government will provide money to a proposed public-private "lifeboat" company to buy more such land, Miyazawa said. He stressed that such productive measures will not just rescue banks but boost the nation's economy as a whole.

To forestall any further bashing of Japanese bank stock (which has been led by London and New York bankers), Japanese Finance Minister Tsutomu Hata said Aug. 30 that his ministry is preparing to disclose bad loans made by financial institutions in September. "Both the government and financial organizations must cooperate and find measures to convince people that a financial crisis will never happen," Hata said.

Tokyo's announcement has for now halted the free-fall of the Tokyo Nikkei stock market index. "The package is more aggressive than people had expected," said Mineko Sasaki-Smith, economist at Crédit Suisse.

While on Aug. 18, the Nikkei had dropped to 14,309.41, some 63% below its December 1989 peak, the market jumped 26% in the eight trading days through to the Aug. 28 expansion package announcement. By Monday, Aug. 31, the Nikkei closed up 90.33 points at 18,061.12. While the average fell back to 17,668.61 on Sept. 2, "the Nikkei is likely to be caught in a narrow range of between 16,000 and 18,000," one broker said.

"The key thing is that officials finally told the public they will do whatever it takes to prop up the financial system," said Masaharu Sakudo of Tachibana Securities.

The dollar also collapsed in Tokyo, dropping to a new 44-month low on Sept. 2 of 122.10 yen to the dollar. A few short months ago, the rate was 140 yen to the dollar and the Bush administration was urging Japanese Prime Minister Kiichi Miyazawa to cheapen the dollar to the range of 130 yen to the dollar, in a vain attempt to boost exports of unwanted U.S. goods to Japan. Now the rotten U.S. currency appears to be in a free fall.

Anthony Nafte, economist at IDEA, a financial market analysis firm, told the press Sept. 2 that the first test of the stock market comes when the Bank of Japan issues its next quarterly business survey, the "Tankan" or "short report," during the second week in September. If the report is not positive, he said, the Bank of Japan might even take the additional step of cutting Japan's already low interest rates even further.