Chapter 4: The Burst of Bubble and Political Economy of the 1990s Depression

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The Japanese economy changed its features in the 1990's, compared with the 1980's. It shifted down to an extremely lowered growth trend. Its continuous depression with economic difficulties has gathered international concern among the advanced countries. Among the major causes for such difficulties were clearly the swell of huge bubbles in speculative trading of shares and real estate in the late 1980's and the in subsequent collapse. They brought an enormous amount of bad loans to the Japanese financial institutions generating credit crunch, deteriorated assets of firms and households, caused continuous business failures, and a vicious circle of asset deflation.

We saw the swell of bubbles by mobilizing the expansive flexibility of the credit system and the resultant destructive burst of them not seldom in the history of capitalist economies. There were for example, the burst of bubbles in the tulip crisis of 1637 in Netherlands and the South Sea bubbles incident in 1720 in the UK already in the nascent period of capitalism, the cyclical crises in the 19th century, or the great crisis beginning from 1929. In the capitalist world economy since the late 1980's, the possibility in capitalist economy to cause speculative bubbles and their burst strongly reappeared. The Japanese economy could not escape it. Such a process of burst of speculative bubble may be understood at a certain abstract level by H. Minsky's post-Keynesian financial instability hypothesis.[1] According to this hypothesis, most of firms and individuals in the Japanese economy in the late 1980's must have started from the position of hedge finance, in which the cash flows from assets in position are expected to exceed the cash flow commitments on liabilities for every period. Then more and more of them moved to speculative finance, in which the cash flows from assets in the near future term fall short of the near term contracted payments, but the expected cash receipts in the longer term are expected to exceed cash payments that are outstanding. Further at the last phase of speculative development, increasing number of them came to Ponzi finance, in which the net income from receipts falls short of interest payments in both the short run and the long run, so as to increase outstanding debt, expecting a future bonanza as a solution.

However, the general possibility for a capitalist economy to cause bubbles and their burst, or the hypothetical logic of process of events is obviously insufficient fully to explain the characteristic process and the size of destructive damage of financial instability in the Japanese economy in this period. We have to reconsider also the

[1] Minsky, H.P., 'The Financial Instability Hypothesis; A Restatement' (1978) among other essays in Minsky, H.P.(1982).

roles and functions both of the government and the Bank of Japan in their fiscal and monetary policies, and of the deepening fiscal crisis of the State, as well as the possible directions of reconstruction from the crisis.

4.1 The Swell of Bubbles

We have to examine first why and how the huge bubbles swelled in the late 1980's Japan. The bubbles were concentrated into the speculative trading with rising prices of shares and real estate much faster than the real economic growth. Their features are shown in charts 4-1 and 4-2. While Japanese nominal GDP grew by 1.35 times in 1985–90, the average share price in Tokyo stock exchange rose by 3 times, and the average land prices in Tokyo area and three major urban areas rose by 2.5 times. What are the main factors to cause the bubbles?

(Chart 4-1 and 4-2 enter around here)

4.1.1 Initiating Roles of Monetary and Fiscal Policies

The most direct initiating factor for the bubbles in this period of Japan was given by the fiscal and monetary policies to expand the domestic demand after the G5 Plaza meeting accord internationally to cooperate for revising the excessively high exchange rate of dollar and the trade imbalance.

The preceding Japanese economic recovery since 1983 largely depended on the expansion of exports to the US market among others. This was promoted much by appreciation of dollar, which was caused by massive international capital flow into the US economy being attracted by a high rate of interest due to Reaganomics (with the crowding out effect). After the Plaza accord, the appreciated dollar, which had been a result of speculative capital flow against the basic balance of trade, began to fall rapidly. In just 8 months until March 1986, yen appreciated from 240 yen a dollar to 150 yen as dollar declined. This gave a serious shock to the Japanese exporting industries, and generated depression.

However, in this 1986 the Nikkei Dow average of 225 share prices began to rise from 13,137 yen at the beginning of the year to 18,701 yen at the end of the year by 42 per cent, though it is seemingly inconsistent with the depressive real economy. This was the start of the bubble in share prices as shown in Chart 4-1. A most important factor to cause this was reduction of interest rate. Following the Plaza accord, the prime rate of the US Federal Reserve Bank was pulled down from 7.5 per cent at the beginning of 1986 to 5.5 per cent in August of that year. Correspondingly, the official rate of the Bank of Japan was reduced from 5 per cent at the end of 1985 gradually to 3 per cent in November, and further to the unprecedented low rate of 2.5 per cent in February 1997 to be kept there until the Spring 1989. The requested expansion of domestic demand to mitigate the trade friction with the USA had to be pushed forward mainly by such a monetary policy, as operation of fiscal policy was restricted by the government priority task to solve the cumulative budget crisis of the State. At the same time, monetary policy to lower the rate of interest was much facilitated by the floating exchange rate system combined with the increasing foreign exchange reserve in Japan. Ceteris paribus a fall in the interest rate elevate the prices of shares and land or the value of fictitious capitals in inverse proportion through comparison of efficiency of investment.[2] In fact, share prices began to rise in New York Stock Exchange, and then also in Tokyo market in 1986. Simultaneously land prices in Japan began also to rise sharply from Tokyo area as we see in Chart 4-2.

In addition, Japanese government deviated from the tightening fiscal policy to solve the fiscal crisis from the beginning of the 1980's, and implemented a large-scaled emergency spending policy in a supplementary budget of 6 trillion yens and added in main to public investment in the spring 1987. This was to boost domestic demand in order to mitigate both the depression after appreciation of yen and the trade friction with the USA. Local governments were also advised by the central government to extend the regional re-development projects such as a plan to construct a littoral sub-center in Tokyo among others. These policies stimulated developers, real estate agents, constructing companies, and promoted the rise in prices of land and other real estate.

The Bank of Japan, like many other central banks, was traditionally much concerned about keeping the value or purchasing power of its bank note by avoiding general inflation. The general price level happened to remain stable in the late 1980's, as import prices of energy and other materials were rather deflationary due to both the effect of appreciation of yen and the balance between demand supply in the world market. Therefore, the Bank of Japan easily continued to supply money funds to enable banks and other financial institutions to expand loans for speculative trading of shares and real estate, and did not pay much attention to the danger of swelling bubbles in prices of shares and real estate. Resultantly, money supply in Japan, which is composed from total (M2) of cash, deposit payable on demand, time deposit and negotiable certificate of deposit (CD), continued double digit annual growth rates from the second quarter of 1987 until the third quarter of 1990, much faster than the real economic growth.

4.1.2 The Economic Recovery with Expanding Domestic Demand

Monetary and fiscal policies would not always work to initiate economic recovery. In the Japanese economy at this phase they managed to generate expansion of effective demand, beginning from that of the wealthier persons and business firms, by increasing capital gains with rising prices of shares and land.

Consumer demand began to expand initially for luxurious expensive commodities such as sophisticated residential units, big passenger cars, fur coats and jewels for wealthy persons. Department stores and other fashionable shops expanded their corners for high-grade expensive goods with world famous brands. As Japanese firms were largely restricted to maintain exports by appreciated yen, they attempted anew to dig up domestic demand for their products by multiplying models in accord with market trends. It used to be said that they discovered and were digging up the second largest consumer market in the world. Expansion of consumer credit with lower rates of interest often combined with card-system of payment was positively promoted as a

[2] See more in detail in Chapter 5 of Itoh, M. and Lapavitsas, C.(1999).

part of such an endeavour.

When prices of houses and land began to be noticed as rising, the demand for residential units in condominiums, and houses began to expand rather than to decrease in these years. As there was continuous shortage of housing units in the Japanese economy in the post World War II period, especially in urban areas with rapidly growing number of families, prices of housing units and residential land continuously rose and did never fall. People believed that residential units and land are most secure assets to have. For a great number of working people, it seemed one of greatest tasks in their life to obtain a housing unit for their family sometime in their career before retirement. Against these background, once prices of housing units and residential land began to rise conspicuously, an expectation easily spread that the earlier the purchase, the bigger the capital gain from rising asset prices obtainable. Such an expectation moved people more and more generally beginning from wealthier persons.

More and more the rising prices of residential units and land fostered the expansion of their demand to gain earlier and more widely. As we shall see in the next section, banks positively promoted housing loan since the late 1970's, and swelled it in these years in late 1980's.[3] Beginning from the third quarter of 1986 until the first quarter of 1988, private investment in houses continued to surpass its level at the same period of the previous year. Many people were advised by real estate agencies and banks to realize capital gains by selling their housing units, and repurchase new larger units by means of easy housing finance with a lowered interest rate. Many of them followed the advice and repurchased also cars, furniture, electric appliances, and apparels often by means of consumer credit.

At the same time, demand for office rooms also swelled especially in the metropolitan area. As international activities of firms rapidly expand, the headquarters of firms seemed better and convenient to locate at the metropolitan area nearer to the international financial and business center. Therefore, many companies, which traditionally had based out of the metropolitan area, especially in Kansai (around Osaka) area, shifted their headquarters to Tokyo area. As globalization proceeded, many of foreign companies moved into Tokyo area and opened their branches or offices. Corresponding to such movements, construction of office buildings became a boom in these years, and promoted the rise of land prices beginning from Tokyo area.

The feeling of economic recovery and prosperity thus spread from constructing industry more generally to manufacturing industries following the expanded domestic demand. So far as the Japanese firms relied upon expansion of domestic demand, they could utilize both the lowered rate of interest and the lowered yen prices of imported raw materials and oil as favourable conditions for their profitability. As many of them mutually had shares of companies in the same keiretsu (groups of business companies) as well as land at book values purchased, a rise of prices of shares and land formed

[3]The total amount of Japanese housing loan given in a year increased from about 17 trillion yens in 1986 to about 28 trillion yens in 1990 (Imura, S. (1997), p.161.). Though it included both public and private loans, the part of private loans mainly by banks occupied an overwhelming proportion both in the absolute amount and in its increment. When Japanese banks began to expand housing loans in the late 1970's, they initially set up specialized housing loan companies as non-banks to channel their loans. However, soon they began to extend housing loan directly so that the specialized housing loan companies were forced to go on expanding more risky loans on real estate for business firms.

latent asset value and strengthened their financial position. Many of Japanese firm also accumulated idle money fund not just by retained profit but also by means of equity finance or issuing new shares, convertible bonds (CB) and warrant bonds (WB) both domestically and internationally so as to utilize the low rate of interest and appreciation of yen. They used a part of such money fund to expand plants and equipment or offices, but spent largely for zaitech (financial technique) or speculative financial operation to obtain capital gains by rising prices of shares and real estate. Bubbles of prices of shares and land were very much accelerated by such zaitech among capitalist firms.

As the domestic demand expanded, Japanese investment in plants and equipment was activated after many years of depression, and increased for three years from the beginning of 1987 by double digit per cent when compared with the same quarter of the previous year. The Japanese economy seemed to enjoy recovery and boom throughout almost all industries including raw material suppliers. The great depression appeared solving by the domestic market oriented economic growth for the first time after 1973. The panicky fall of share prices following the black Monday in October 1987, did not much prevent this expansive trend in real economy, and passed away as an tentative episode for the economic recovery. The average annual rate of real economic growth in the fiscal years during 1987 and 1990 recorded 5.2 per cent.

However, the economic recovery in these years contained fragility and distortion in its character, as it was led and fostered by the bubbly swell in asset prices. Certainly the rise in prices of shares and real estate was not just empty illusion. It caused and reflected the recovery and growth of real economy to a certain degree. Nevertheless, so far as it went up far more than the growth of real economy, it included more and more the fictitious nature sooner or later to collapse. The expansion of domestic demand led by capital gains from such fictitious swelling of asset values was also largely fictitious. Its nature was different from the more steady and substantial growth of domestic demand based upon the continuous rise of real wages almost in line with a rise in labour productivity in the period of high economic growth. Investment in plants and equipment in manufacturing industries like in the automobile industry was promoted also much by the bubble economy, and easily increased large production lines to produce more sophisticated and multiple models by expensive facilities. This was actually preparing a great difficulty for firms to cope with the massive and expensive excess capacity in the subsequent long depression through the 1990's. In the meanwhile, unlike the speculative boom at the beginning of the 1970's, there was not much inflation or general rise in prices in this boom in the late 1980's despite of increasing supply of money and credit. This would make a good counter-example to the quantity theory of money. The reasons were found in declining yen prices of imported raw materials and oil, as well as stagnant slowness of the rise in wages, basically reflecting the balance between demand supply in the global and domestic market plus the effect of appreciation of yen. Actually the whole price index continuously fell than the previous year in 1985–88. Against these background the speculative bubbly trading was more conspicuously concentrated into the stock exchange and the real estate markets as an outlet for ample and cheap supply of money and credit.

4.1.3 The Roles of Financial System

In comparison with other advanced countries, the Japanese saving rate of households has been high. This is an important factual basis to examine the functions of financial system in Japan. The Japanese average household saving rate at GNP basis was about 15 per cent in the period of high economic growth. It rose to 23 per cent in the middle of the 1990's, and then fell slowly so as to maintain still about 15 per cent.[4] There is no definite theory to explain why it has relatively been high. Historical and institutional factors such as follows must have worked together.

Namely, as Japanese working people have been worried for the life after retirement reflecting the insufficient social welfare, especially with extending average span of life in the nuclear family. They have been facilitated to save by continuous increase in disposable household income, the bonus system to receive about 4–6 times of monthly wages twice or three times a year, and the custom of retirement pay for regular workers often 2–4 times of yearly wages. They also needed to save to purchase a relatively expensive residential unit each for their family by the time of their retirement to settle the housing problem for the rest of their life. In the period of high economic growth, banks and other financial institutions could easily collect such household savings with nearly zero real rate of interest. Main banks for each keiretsu group in cooperation with other financial institutions poured the collected fund into loans for investment in plants and equipment of big businesses. This function of financial institutions pumping the household saving into investment in plants and equipment formed the so-called over-loan tendency of the Japanese big businesses, and served as an important basis of high economic growth in this period.

In the process of economic crisis and restructuring since 1973, however, such a close relation between banks and big businesses changed greatly. Along with both transition to the low economic growth trend and spread of ME information technologies, big businesses reduced down the scale of investment in plants and equipment. Correspondingly, they attempted to reduce debt by returning borrowed fund more and more in order to cut down interest payment as a part of economizing the costs of operation. Further, in the 1980's the increasing number of big firms accumulated their own financial assets more than their financial debt, and thus went through the 'golden cross' so as to earn net revenue from their financial operation. Such net financial asset was formed by retained earnings as well as by equity finance. More and more big firms utilized direct finance, instead of indirect finance through banks, to obtain monetary fund directly at capital market by issuing new shares, CB, WB, and SB (straight bonds) with cheaper costs. Especially in the late 1980's, with appreciation of yen, international

[4]There are two series of statistics on the rate of saving in the Japanese economy; one is based on the GNP statistics (S-GNP), and the other is based on the survey of working households (S-SWH). While these two roughly showed similar movements, they became rather widely different in the 1980's. We refer to the motion in S-GDP here, which is lower than S-SWH. The factors to make the gap are analyzed by Adchi, M.(1993). For instance, the interest and principal return payment for debt by households are counted as saving in S-SWH. To certain extent, the relatively high rate of saving among Japanese households may be understood in a model as follows. Assume that all the workers spend five times of their average annual income in order to obtain their own houses once in their 35 working years. Assume also that their saving is to be used just for obtaining their own houses either by purchase or (re-)construction. Then in average they have to save one seventh or 14.3 per cent of their annual income so as to obtain a house by the year of retirement. This saving rate roughly matches the actual number in the text.

direct finance in terms dollar often enabled Japanese big firms to obtain monetary fund often with negative rate of interest or negative costs in terms of yen. When share prices began continuously rose, direct finance in the form of equity finance by issuing new shares or some bonds with right to obtain shares in certain conditions (like CB, and WB) became easier to use. Thus the amount of money funds obtained by equity finance for the listed big companies in Tokyo Stock Exchange widely increased from 4 trillion yen in 1983 to 28 trillion yens in 1989.[5]

In the late 1980's investment in plant and equipment recovered and increased after many years, but it was around 5 trillion yen in 1987, and 9.7 trillion yen in 1989 at most. Many of firms could self-finance such a size of real investment by retained earnings and just a part of equity finance. Therefore they utilized a large part of huge amount of monetary fund obtained by equity finance in zaitech speculative trading of financial asset or real estate beside foreign investment with speculative trading of foreign currencies. This was a major source of speculative swell of bubbles. Let us examine some statistical evidence.

In 1985–89, the total market price of shares of listed companies swelled from 196 trillion yens to 630 trillion yens (1.6 times of GDP) by more than three times. In 1985–90, the units of shares listed increased by 21 per cent or 66.6 million units in real number. Of these increased shares, business firms obtained 34 per cent, financial institutions 36 per cent, while individual persons got only 17 per cent, and investment trusts 17 per cent. Of total existing listed shares in 1989, financial institutions held 42.3 per cent, business firms 24.8 per cent, while individual persons occupied only 22.6 per cent. This shows a characteristic of the Japanese economy as corporate capitalism, in contrast with the US economy, where individual persons own almost 60 per cent of existing listed shares. So long as corporations mutually own continuously a large part of existing shares, the floating shares in the market are relatively scanty, and are more easily subject to speculative rise of prices. Into such a share market, business firms and life insurance companies injected a large quantity of monetary fund directly or indirectly often in the form of designated fund trust through trust banks and security companies. The estimated outstanding amount of such designated fund trust increased from 5 trillion yens at the end of 1985 to the huge amount of 37.6 trillion yens at the end of 1989. Apparently the bubbly swell of share prices in these years in Japan was led by zaitech speculative trading among big business firms and financial institutions, though individual persons were also involved. In the meanwhile Japanese banks tended to loose more and more of big businesses as borrowing customers. They began to be threatened also by increasing competition with postal offices and insurance companies to sell new models of financial commodities to individual households by means of information technologies.

Therefore, Japanese banks positively expanded their business activities abroad, especially in the latter half of the 1980's by utilizing the appreciation of yen. Between the end of 1985 and the end of 1989, for example, the outstanding amount of Japanese international banking asset increased widely by 30 per cent at annual average, to reach 1967 billion dollars. Its share in total international banking asset sharply increased

[5] Haga,K.(1993),(1994),(1995) present fine analyses of the Japanese bubble economy in this period with useful statistical data, to which I owe much in the following related paragraphs.

from 26 per cent to 38 per cent in the same period. Such rapid expansion of Japanese international banking operations gathered international financiers' concern and worry if it include reckless and imprudent loans. Therefore, Bank of International Settlement (BIS) made up an agreement on capital adequacy requirements (Basel agreement) in 1988. This agreement required banks doing international business to maintain own capital more than 8 per cent of asset (after adjustment according to the different kinds of asset groups) after the end of 1992. Japanese banks asked and obtained allowance in the agreement to include 45 per cent of their latent asset of holding share prices, or the latent capital gain between current prices and booked old prices of shares they hold, into own capital. So long as share prices continued to rise, the Basel agreement seemed easy to clear with such an allowance. Thus Japanese banks assumed that they can go on to expand loans in accord with the international common rule in the process of swelling bubble economy.

However, main domestic borrowers for Japanese banks greatly changed from the big businesses in the previous period of high economic growth to medium and small businesses, especially in the field of real estate agencies or constructing companies, non-banks such as specialized housing finance companies without receiving deposit, and individual persons. Though there was such substantial change in contents, the annual average rate of increase of total asset (mainly the remaining loans) of 151 Japanese major banks (including city banks, regional banks, and trust banks) rose from 9.6 per cent in 1980–84, to 16.6 per cent in 1985–89. Especially it reached 28.9 per cent in 1989. While the annual average rate of increase of total loans of those banks was 12.2 per cent in 1985–89, and 16.1 in 1989, that of loans to real estate business was 14.1 per cent in 1985–89, and 24.3 per cent in 1989. The annual rate of increase of loans to non-bank and other financial business was 30.4 per cent in 1985–89 and 21 per cent in 1989. According to a survey by the Ministry of Finance, the total inflow of loans to real estate market at the end of 1991 reached 120 trillion yens. Of those total loans, major banks owned 59 trillion yens, and non-banks owned 50–55 trillion yens. As the source of the large part of non-banks' loans was borrowing from the banks, it is clear that the huge bubble in the form of swelling prices of land and other real estate was substantially facilitated by the inflow of money fund or loans directly or indirectly from banks.

The resultant capital gain just by land prices in 1988 amounted to 416 trillion yens, or 1.21 times of GNP of that year.[6] Although the similar bubbly rise of land prices occurred also in the USA, the capital gain by land prices remained there just about 3 per cent of GNP in the same year. In comparison, the Japanese bubble of land prices was enormous. In about 1989, the total land price in Japan was estimated as 4 times more than the total land price of the USA. Since total area of Japan is one twenty-fifth of that of the USA, the average price of Japanese land would be 100 time more than

[6] Tsuru, S. (1990) p.5. By the way, so far as the great part of land was not transacted, the large part of such an amount of capital gain was just in calculation and in a sense imaginary. As for the realized part of capital gain, its source may not be confined within the annual flow of income or surplus value produced by surplus labour of the society. A significant part of it must rather be in redistribution of monetary asset as a stock. This can be applied to the source of capital gain obtained by a rise in share prices. Conversely, capital loss occurs as destruction of fictitious asset values, and may not directly mean a minus of income flow or reduction of surplus value. Marxist theory of surplus value should not too directly be applied to such gains and losses.

that of the USA. The land prices in Tokyo area and other large cities were much more expensive than the national average.

Including such a rise in already expensive land prices, the average price of residential units also rose. For instance, the average price of a condominium unit in the metropolitan area increased from 35.8 million yen in 1987 to 61.2 million yen in 1990 by 71 per cent in just three years.[7] In comparison with the average annual income of workers' households in the same metropolitan area, it increased from 5.5 times of annual income to 8 times in these years. Obviously unfair and uneven redistribution of wealth, which was not at all related to individual personal industry or diligence, took place in a great scale between old owners and new purchasers of land and housing units. As the real estate prices rose rapidly, the average amount of loans of those, who purchased their houses and lot separately or built houses on owned lot, also widely increased from 16.7 million yen in 1987 to 23.4 million yen in 1990 and further to 27.4 million yen in 1992. As it became too hard to set up a necessary amount of loan to purchase a residential unit on a shoulder of a single person, banks and other financial institutions not seldom promoted housing loan projects with contracts of return payment over two generations.

Along with the increasing speculative demand for real estate, banks and other financial institutions' easy expansion of loans positively promoted speculative purchase and trade of office buildings, houses, condominium units, empty land, and further vendible memberships of golf clubs. Soaring prices of shares and real estate were regarded as secure mortgages for banks and other financial institutions to set up, expand or renew loans to business firms and individual persons.

4.2 The Burst of Bubbles and the Depressive Pressure

4.2.1 The Process of Collapse of Bubbles

The bubbly elevated prices of shares and land, which went up by speculative transactions far beyond the trend of real economic growth, were destined to setback. It was, however, hard to predict when, and how the setback would cause reciprocal reactions with real economy.

Turning points came in 1989. Internationally, the appreciation of yen peaked out in 1988, and yen began to slide down. At the same time, the dollar price of oil turned upward. The Japanese wholesale price index thus had to go up beginning from import prices. Domestically, as a result of continuous broad economic recovery, the rate of unemployment declined to 2.2 per cent and the active vacancies ratio (i.e. the ratio of vacancies over applicants) went up beyond 1.3 in 1989, reflecting the actual shortage of labour-power. Consequently the wages in manufacturing rose fairly widely by 6.5 per cent in that year.

In the meanwhile, the US Federal Reserve Bank raised the official rate from 5.5 per cent in 1986 gradually to 7 per cent in 1989. The widened gap in the rates of interest between the USA and Japan induced more of international capital flow and thus served as a cause of tendentious fall of yen against dollar. Under these circumstances, the Bank of Japan pulled up the official discount rate from 2.5 per cent in the middle of

[7] Fudosan Kenkyusho [Research Institute of Real Estate] (1997).

1989 three times to 4.25 per cent at the end of that year so as to prevent inflation. It was anticipated that the Bank of Japan would raise the official rate soon again in the early 1990. Actually the official rate was elevated to 5.25 per cent in February 1990, and further to 6 per cent from the summer 1990 until the autumn 1991.

As we have seen, the Nikkei Dow average of 225 shares in Tokyo Stock exchange began to rise from 13,137 yens at the beginning of 1986 to 38,915 yens at the end of 1989 almost by three times. As the lowered interest rate promoted the speculative zaitech mainly among business firms and financial institutions to swell such bubble in prices of shares besides land prices, the elevated interest rate served as a decisive factor to setback the bubbly share prices. The Japanese share prices actually turned to a falling process from the very beginning of 1990. The Nikkei Dow average fell by about 10,000 yens or by 25 per cent already by March 1990. The capital loss in the financial asset was estimated to reach 160 trillion yens by that time. The fall in share prices did not easily stop in the following years. The Nikkei Dow average declined to around 150,000 yens, or to the level of 38 per cent of its peak in the latter half of 1992. The estimated capital loss just in the share market by that time amounted to 430 trillion yens. The Nikkei Dow average slid further down below 130,000 yens in the autumn 1998. The Japanese bubble economy entered into the process of collapse from 1990 with such a fall in share prices. However, the prices of land did not instantly synchronize with share prices. As we see in Chart 4-2, the peak in land prices was shown in 1990. The land prices in three major urban areas did not fall much below that peak even in 1991, and remained higher than the level in 1989. The decline in land prices came in more slowly than that in share prices, became conspicuous from 1992, and proceeded persistently in the following years. The real economic growth rate also maintain a relatively high level of 5.1 percent in 1990 despite of the fall of share prices, and entered into depression from the spring 1991.

What did signify the difference in timing of the processes of collapse of bubbles? There worked several factors.

Initially the business firms and financial institutions still had a lot of latent capital gain in mutually owing shares of companies in the same keiretsu group, and sufficient money funds obtained by equity finance in the bubble economy. Therefore, most of firms need not yet to sell out their idle land or to abandon the projects to acquire the real estate or investment in plants or in area development. Banks also could assume that they could maintain the loans relating the land and other real estate upon the basis of their latent capital gain of share prices even under the BIS regulation to keep at least 8 per cent of own capital against total asset. Various real estate developing projects such as the plan to construct Tokyo littoral sub-center took long time to complete, and were difficult to stop in the middle of construction. Business firms and individual persons tended to believe in the myth on tendentious rise of land prices and often continued the speculative trading of land and other real estate, by expecting to offset the capital loss in share prices by the capital gain in land prices. Similarly, investment in plants and equipment continued to maintain a fairly high level until about the spring 1991, despite of collapse in share prices. Projects to construct plants and equipment also often take long time to complete. Many firms already had obtained sufficient money fund by equity finance among others to continue the construction projects. Investment demand seemed still considerably strong.

However, the land prices, which had been swollen by speculative trading using flexible credit expansion, could not continue to maintain the widening gap with the falling share prices, and the bubbly distance from the real economic basis. The government, the Bank of Japan, banks and other financial institutions became worried about the worsening loans relating the real estate market, seeing the contemporary wave of bank failures in the US economy. For example, the Ministry of Finance advised banks to regulate total quantity of loans to real estate in April 1990, and thus concretely expressed such a worry. Nevertheless, banks initially continued to roll over, and even to expand loans relating with real estate, often through the tunnel of non-banks. They believed together with many business firms and individual persons that the land prices would sooner or later come back to the upward trend again to solve the current worsening loans in relation to real estate, and tended to postpone the sharp collapse of bubble of prices of land.

In such a process, however, banks had to see a fall in the ratio of own capital against the total asset, as their loans to real estate even through non-banks one-sidedly increased with less return payment. This situation proceeded, because the stockpiling of real estate at highly speculative prices became more and more difficult to realize. The reduction of banks' latent capital gains in prices of holding shares also worked to the fall in their ratio of own capitals. Since Japanese banks were positively expanding the international banking activities, they had to follow BIS Basel agreement to keep the ratio of own capital against total asset more than 8 per cent from April 1993. To meet this regulation, banks had to restraint loans, and had to strengthen credit crunch resultantly.[8]

Accordingly, an increasing number of firms among medium and small firms, especially in the field of real estate business, were enforced to restrict and further reduce their business, as they had depended much on borrowing from banks and non-banks to expand their activities. Such like Toyota which constructed a huge new plant in Kyushu island, big firms also had to reduce investment in plants and equipment, when their newly built capacity to produce began to work with much increased supply effect after the gestation period for construction. The intensified competition worsened their profitability, and the reduced investment demand spread the depressive feeling broadly.

Thus when the Japanese economy entered into the actual depression clearly from the spring 1991, the effective demand for office rooms, vacant land, residential units, and membership of golf clubs began largely to contract, enforcing a decline in their prices. An obvious decline in land prices in Tokyo area and in three major urban areas in 1992 shown in Chart 4-2 exemplifies such a general movement. As we see in the same chart, the decline in land prices persistently continues, though more slowly than share prices. Resultantly, the land price fell to one half of the peak in Osaka area, and to about 60 per cent of the peak in Tokyo and three major urban areas. The fall in asset prices in such a scale has destructively worked and continuously depressed the Japanese economy in the 1990's.

[8] Lapavitsas, C. (1999) presents a detailed analysis on the financial instability in current Japanese economy, by underlining the central position of banks in the whole economy.

4.2.2 The Complex Linkage of Depressive Spiral

It is estimated that the total meltdown in Japanese asset values mainly by the fall in prices of shares and land amounts to 1,000 trillion yens (about one half comes from financial asset and the other half from real estate). This caused an important basic tone for the complex depression in the 1990's, which is composed from depression both in stock and flow of the economy.[9]

As latent capital gains in prices of shares and land as stock melt down, many of business firms can hardly expand their activities either by self-finance or by borrowing on mortgage. They tend to lose the flexible power to resist against the repressive pressure by the credit crunch.

Thus, as business firms had to restrict and reduce their activities, the employment conditions became severer, and the real wages stagnated. In 1993 the real wages actually declined. Wage income for overtime work was also cut down. Resultantly the real disposable household income (i.e. real household income minus taxes and social security payments) began to fall from 1993. Therefore the consumer domestic demand had to cool down, and the depression deepened in the aspect of flow of household income.

Correspondingly, the capacity utilization rate in Japanese manufacturing firms widely declined in the 1990's as it was shown in Chart 1-1. With huge excessive capacity to produce, Japanese firms sharpened mutual competitive pressure in the market. Thus a vicious circle for depressive spiral was set in the Japanese economy among falling pressures in prices of shares and land, in workers' household income, as well as in the markets for products and services.

As a reaction to the depressed domestic market, Japanese firms intensified attempt to export again. However, as the trade surplus resultantly increase, yen appreciated widely and gave a severe difficulty to Japanese exporting industries. The yen exchange rate with a dollar in yearly average appreciated from 145 yen in 1990 to 127 yen in 1992, and more to around 100 yen in the late 1994. Further in 1995, as credibility of dollar was shaken with the monetary and financial crisis of NAFTA (North American Free Trade Agreement) beginning form the Mexican crisis, yen appreciated against a dollar to 79.75 yen in April. As we noted in the previous chapter, such an appreciation of yen in these years gave a serious difficulty to Japanese exporting industries, and promoted them to transfer their factories abroad with a tendency for industrial hollowing out.

Thus, the Japanese economy continuously deepened depression both domestically and from international relations, and failed to join the economic recovery in the USA

[9] Miyazaki, G. (1992) presented a pioneering analysis to characterize the 1990s depression as a complex depression of stock and flow, as the adjustment process of financial stock induced a minus growth in flow of DNP. His analysis was, however, insufficient in identifying the depression factor of flow just with a short-run inventory adjustment. The actual depression of flow economy was more serious, going deeper to the increasing pressures of excess capacity and unemployment with depressed consumer demand and investment. Takumi, M. (1998) then defined the 1990s Japanese depression as of a 'Great Crisis (from 1929) type' with the deflationary spiral, not having a cyclical nature. In my view, this definition is dubious, as the monopolistic behavior of big businesses is not so crucial to the difficulties of the contemporary Japanese economy unlike in the 1930's. The workings of monetary and financial system under the floating exchange rates system with managed currencies are also different from those at that time. Historically, comparison with the great depression in 1873–96 must also be attractive, as it was non-explosive but more persistent than the Great Crisis.

and other advanced economies since 1993. Hansin-Awaji great earthquake in January 1995 gave an additional shock especially to Kansai region, the second largest business center in Japan. The rapid decline of birthrate and transition to an aged society is another important basic factor to repress the Japanese economic growth rate. All in all the Japanese economy has come into an extremely lower growth trend compared with the growth trend until the 1980's, not to say with the trend in the period of high economic growth.

In reciprocal reaction with such a continuous difficulty in real economic growth, the destructive pressure from the asset deflation to generate bad loans in banks and other financial institutions also continues and repeatedly intensifies. When Financial Times reported in May 1992 an estimation of total bad loans in Japanese banks as about 42–56 trillion yens, or around 10 per cent of their total loans of 450 trillion yens, the Bank of Japan instantly announced an objection that it was too exaggerating. In March 1994, an official estimation defined that the total amount of bad loans (those impossible to collect, and those payment deferred more than 6 months) in city banks, long-term credit banks, and trust banks was 13 trillion and 570 billion yens. This number was clearly underestimation in order to avoid financial unrest, by neglecting a large portion of practical bad loans whose interest payment was enabled by new additional loans through the tunnel of non-banks. Such an operation to cover up the substantial bad loans was regarded as necessary and reasonable not to reckon up the decisive loss by such loans as a whole, in so far as the asset prices in mortgage were still expected to recover. The operation could not continue, however, as the expectation for asset prices to recover failed to realize. Actually, after several years of attempt to reduce bad loans, in January 1998 a survey of the Ministry of Finance revealed that the total of bad loans still amounts to 12 per cent of total loans of various banks, or 76 trillion yens. (The definition of bad loans in the survey refers to loans impossible or seriously worried of the possibility to collect, and those require appropriate risk control). Even this amount can easily increase more, if the asset deflation goes on.

The Bank of Japan reduced the official rate of discount from 6 per cent in 1990 step by step to 1.75 per cent in 1993, further to 0.5 per cent in September 1995, and maintained that unprecedented low interest rate for four years by now. This monetary policy clearly intends to mitigate the huge difficulties of banks and other financial institutions with a huge amount of bad loans. With such a monetary policy, disposal and liquidation of Japanese bubble especially relating speculative trading of land and other real estate has taken much longer time than otherwise. For instance, it is often commented in comparison that in case of the USA liquidation of bubbles in the same late 1980's was taken place in shorter time through a wave of failures of financial institutions. However, in case of Japan, the size of bubble in relation to real estate was huge when compared with the USA, as we have noted. The scale of many banks and other financial institutions are also much bigger, not easily to be allowed to fail in a wave from the view of the government and monetary authority. Thus liquidation of difficulties in Japanese banks and other financial institutions had to go gradually with official support including almost zero official rate of interest.

As we shall see soon in the next section (4.3.2), a huge amount of public money was also injected for rescue operation of banks and other financial institutions besides additional public investment. These monetary and fiscal policies were enabled by a large amount of foreign exchange reserves with continuous trade surplus. Though they brought serious distortions in income redistribution and prolonged the depression in the Japanese economy, they were still of some effect not to cause an acute total crisis of deflation spiral unlike in the case of the US Great Crisis from 1929.

Despite of some effect of supportive monetary policy, however, the latent capital gains in prices of shares held by banks continued to melt down. Then, the BIS 8 per cent regulation, which allowed to count 45 per cent of the latent capital gains in share prices into own capital of banks, turned to torture Japanese banks more and more severely. In order to keep own capital more than 8 per cent of total asset as international banks, they had to press down total asset by reducing loans. This worked to worsen the real estate market through credit crunch, affecting not only directly the real estate business but also broadly business activities especially of medium and small firms. The worsened real estate market deteriorated the mortgages and expanded bad loans by a fall in prices of land and other real estate. Thus the financial positions of banks and other financial institutions were further worsened to complete a vicious circle.

As the complex depression continued including such successive difficulties in financial institutions, scandalous illegal financial operations which expected a recovery in prices of shares and land failed to be covered and were revealed one after the other. The general belief that banks and other financial institutions in Japan would not fail any more in the post World War II period was broken down. Actually failures have occurred intermittently among banks and other financial institutions including the biggest class of them. For example, Hokkaido Takushoku Bank (the leading bank in Hokkaido region), Yamaichi Security Company (one of top four security companies), Sanyo Security Company, and Tokuyo City Bank failed in November 1997. These failures together with the Asian monetary and financial crises in process gave a serious impact to the Japanese real economy including the employment situations.

In retrospect, the Japanese economy intensified its characteristics as a company-centered society through its whole process of continuous economic crisis and restructuring. By spreading ME automation systems, the proportion of female irregular workers was increased. While real wages was stagnated, international competitive power of big businesses was strengthened. The financial structure of big businesses was improved, forming a large quantity of idle money fund and the latent capital gains through zaitech with equity finance. The swell of huge bubbles in prices of shares and land in the late 1980's was in a sense a result of such a success of Japanese capitalism to strengthen a company-centered character of the society. Dialectically the consequent results of such a success brought a series of setbacks to the Japanese economy in the 1990's. As the huge bubbles collapsed, a vicious circle between asset deflation and financial instability with bad loans continued to proceed. The appreciation of yen accelerated industrial hollowing out. The fall in birth rate and depopulation especially of young productive generation is causing a rapid trend for aged society. All of these setbacks were the results of formation of excessively company-centered society in one way or the other as we have seen. Since all of them are not yet solved and over, the Japanese economy will have to grope its way probably still along the trend for an extremely low rate of growth, though a tentative short recovery may always occur.

Moreover, after almost a decade from the end of the bubbly economy, there still remains a serious concern on the possibility to see a sharp financial crisis in relation with cumulative bad loans and asset deflation, besides these setbacks in the Japanese economy. In addition, there is a larger fear of global crisis possibly due to the burst of recent bubble in New York Stock Exchange. Though it is in a sense remarkable that the Japanese economy with so serious setbacks managed not to have seen so far an explosive total crisis unlike the great crisis after 1929, we are not at all live in a reliable and stable economic order.

What roles then did economic policies play in such a process and setbacks in the Japanese economy?

4.3 The Failure and Confusion in Economic Policies

4.3.1 The Failure of Neo-liberalism

The fact that the Japanese economy has been suffering from the endless vicious circle of setbacks and instability is a clear evidence to show a failure of neo-liberalism. As neo-liberalism has become a dominant tone for Japanese economic policies since the beginning of the 1980's following the UK and the USA.

Although Keynesianism dominated the capitalist world in the post World War II period until the 1970's, it could not prevent or solve the inflationary crisis at the beginning of 1970's, rather worsened the situations by promoting inflation, and lost its prestige. Thereafter neo-liberalism became the basic trend for economic policies in major capitalist countries for economic recovery. Against Keynesianism, it demands to reduce the economic roles of the State, and believes in a competitive market order to achieve a rational and efficient economic order. As we have noted in Chapter 3 (section 3), it is not just a simple reaction to Keynesianism, but has a character suitably reflect in economic policies the direction of restructuring among capitalist firms. By introducing ME information technologies, capitalist firms has re-intensified flexible competition in a market, through multiplying models of products, relocating factories and offices both domestically and internationally, and developing labour management to increase non-regular part-time workers.

The neo-liberal economic policies in Japan was initiated and promoted by five reports of the second blue-ribbon commission on the administrative reform in 1981–83. These reports recommended a series of administrative reform for reconstruction of a balanced national budget without tax increase. Following the recommendations in the reports, financial support to health and medical service expense, as well as subsidies to private universities and colleges, was cut down. Three State-owned enterprises—the Japan National Railways (JNR), the Nippon Telegraph and Telephone Public Corporation (NTT), and the Japan Tobacco and Salt Public Corporation—were privatized in 1985. It became generally believed that the basic strategy for economic recovery must be in the vitality of private firms to pursuit profit upon the competitive market principles. Militant trade unions had better be dismantled in such a neo-liberal spirit. Actually the JNR trade union active members were discriminately discharged in the process of privatization. Among others this gave a serious damage to the Japanese left wing of trade union movements. As a result, the General Council of Trade Unions in Japan (Sohyo), which had been the national center of left trade unions, had to dissolve itself in 1989, and was unified into the Confederation of All Private-Sector Trade

Unions (Rengo), which is more cooperative with firms. Thus Japanese firms have been facilitated to implement managerial strategies to economize labour costs in various ways flexibly by means of information technologies. The labour laws and regulations in labour relations have been also altered so as to enable firms to use various types of workers flexibly in combination.

Under the neo-liberal policy trend to believe in free competitive market principles, Japanese big firms introduced broadly ME information technologies, 'rationalized' labour management, suppressed real wages, and re-intensified international competitive power. Company-centered endeavour to improve profitability obtained workers' cooperation, managed to increase trade surplus, appreciated yen. Japanese model of management attracted global attention as a successful model to overcome the economic crisis. Indeed, Japanese big firms improved their financial positions, accumulated a large amount of money fund both by retained profit and by equity finance in domestic and international capital market. They expanded foreign investment, rapidly increased Japanese external asset, and swelled foreign exchange reserve. With appreciated yen, national income per capita in Japan surpassed that in the USA, and Japanese company-centered restructuring under neo-liberalism seemed really a miraculous success story.

However, neo-liberal belief in competitive market principles did not actually realize a rational, efficient and fair economic order. Wide fluctuations in foreign exchange rates along with an enormous amount of international flow of speculative fund have anarchically caused unduly economic loss and damages to a broad range of firms and workers in the affected industries. At the same time, the whole process of swelling the huge bubbles and the subsequent damage of their burst as a result of company-centered profit making within free market principles clearly revealed the fundamental instability of speculative development, intrinsic in free competitive capitalist market economy. Neo-liberal economic policies could not do anything to this irrational and unfair economic disaster. They rather promoted a political and social atmosphere to admit company-centered speculative profit making in the name of market principles, and in fact worked also to ferment and to encourage private moneymaking even among politicians and bureaucrats as if it were a natural right in economic activities. Scandalous corruption and unfair grafts have continuously been exposed. Though Japanese bureaucrats had been regarded as an excellent contributor to the success of the Japanese economy together with the Japanese model of company management, their credibility, prestige, real functions and confidence were largely discounted in the 1990's.

Neo-liberalism could not only achieve its promises, but it also could not make a consistent policy system in the contemporary societies. Political intervention to the market economy by means of operation of fiscal and monetary policies can not be eliminated. For instance, the Japanese government and monetary authority positively operated economic policies to lower the rate of interest from the end of 1986, and to add a large quantity of public expenditure in spring 1987. These policies were a result of international politics to answer to the US government's strong request to expand Japanese domestic demand in order to mitigate the trade friction. As we noted, the resultant monetary and fiscal policies at that time obviously worked to initiate and promote the bubble economy. It was then an inevitable policy option to cause a setback of excessive speculative bubbles by tightening monetary policies in 1989–90. Against the neo-liberal creed, economic policies thus intervened in the working of market order in this period of Japan. However, they could not effectively control the destructive volatility of the market economy, but rather initiated and amplified its bubbly instability.

In the subsequent process of the 1990's depression, neo-liberal policies have been pushed forward. For example, labour laws and controls of employment relations are being deregulated so as to enable firms to use various types of workers more flexibly in a competitive labour market. Restrictions of large-scaled retail shops to protect small family businesses in local regions were deregulated. Liberalization of financial businesses to correspond with the global financial big bang has been promoted. However, being inconsistent with such neo-liberal policy stance with a belief in smaller government, the Japanese government has still strongly intervened in and affected the working of market economy. It actually expanded public expenditure, and injected an enormous amount of public money into rescue operation of banks and other financial institutions suffering from bad loans. The Bank of Japan cooperated with the government and reduced the official rate of interest from 6 per cent in 1990 step by step to an extremely low level of 0.5 per cent in 1995 to maintain this until now.

It must be clear that these intervenient policies have had a large scaled income redistribution effect as well as unfair distortion of the economic order against the assertion of neo-liberalism. Economic policies under neo-liberalism thus could not reduce the roles of the State one-sidedly. Especially Japanese economic policies lack consistency with the neo-liberal theories, and tend to give priority to mitigating the burden of economic crisis of big businesses in the fields of construction, banks and other financial institutions among others. In contrast, they tend to neglect the increasing economic difficulties and sacrifices among majority of workers and weaker people by emphasizing self-responsibility of individual persons in market principles. Such tendencies are observable also in the treatment of issues of fiscal crisis of the State.

4.3.2 Political Economy of the Fiscal Crisis of the State

Through the period of high economic growth until 1973, Japanese government used to maintain practically balanced budget. Although the influence of Keynesianism grew among bureaucrats and leading politicians, the government did not need to operate deficit finance. While a large scale of public expenditure to construct infrastructure for industrial growth and urbanization were continuously necessary, it was sufficiently financed by the 'natural increase of tax' along with the high economic growth. After 1973, however, when the continuous economic crisis began to persist, the outstanding government bonds began to increase rapidly. Initially public expenditure was expanded for economic recovery in accord with Keynesianism, but it was unsuccessful to restore both economic growth and tax revenue. As a result, the outstanding government bonds largely increased from 7.6 trillion yens (6.5 per cent against GDP) in 1973 to 70.5 trillion yens (28.7 per cent) in 1980, as we see in Table 4-1. In the 1980's, as the basic tone of economic policies turned to neo-liberalism, government expenditures for social security and education were severely curbed, and State-owned enterprises were privatized so as to cut down subsidies. Nevertheless, the attempt to restrain the government expenditure could not meet the tendentious stagnation and fall in tax revenue. Therefore the deficit of government continued at a high level (Table 1-2). Resultantly, the outstanding government bonds further increased to 166.3 trillion yens (37.9 per cent against GDP) in 1990 and more to about 254 trillion yens (49 per cent against GDP) in 1997. The last number is about five times of annual tax revenue of the State.

(Table 4-1)

If we add to it other public debt of the central and the local governments, total public debt amounts to 476 trillion yens by the end of 1997. Its ratio against GDP is 92.6 per cent, and much higher than the similar ratio in other major capitalist countries in the same year. The comparable ratio is 64.1 per cent in the USA, 60.7 per cent in the UK, and 64.4 per cent in Germany. 476 trillion yens public debt means that the public debt of 3.78 million yens per capita or 15.12 million yens per household with four members are on the shoulders of Japanese people for the future. Its burden is still growing. Here is an additional difficulty like a black hole for the Japanese economy to recover its real growth.

The increase in the quantity of interest payment for public debt is relatively restrained by the monetary policy to keep the interest rate extremely low. Still the interest payment just for the government bonds amounts to 11.7 trillion yens in 1996, and spends more than 60 per cent of income tax. This works as a powerful means of income redistribution from the great number of tax-paying workers to the owners of State bonds. In 1996, banks and other financial institutions own 27.5 per cent of the outstanding government bonds, and if we add to them the Bank of Japan, financial institutions own more than 41 per cent of government bonds. In comparison, little if any of State bonds are owned by the majority of workers' households. So far as banks borrow from the Bank of Japan by 0.5 per cent of interest payment just to invest in public debt, the large portion of interest payment for public debt works practically as subsidy to banks. In 1966, the part of the compensation of employees in the national income statistics is 283 trillion yens. It is not at all a small problem to see 4.1 per cent of this workers income is redistributed as interest on government bonds, or nearly 8 per cent for interest on total public debt. Interest payment just for the government bonds already amounts to nearly twice as much as the total government expenditure on education and culture, and approaching the size of that on social security.

The worry of a further increase in necessary expenditure for interest on public debt must be a reason to make the Japanese government and the monetary authority reluctant to revise the extremely lowered official rate of interest. Together with the depressed demand for loans among depressed private firms and consumers, the Japanese deposit rate of interest has been kept very low, almost near to zero following the official rate. This gives a great difficulty for pension funds to keep the promised pension payment, as well as for retired older persons who expected to gain some interest on their savings.

Notwithstanding such a lowered rate of interest, the burden of interest payment on cumulative government bonds became in itself a source of fiscal crisis of the State, by making the total amount of government expenditure so hard to reduce. In this regard, the Japanese State budget resembles the reckless business firms, which have to increase their debt in order to meet the need for interest payment in the form of Ponzi finance. It is indeed curious to see that the State budget in Japan is falling into such a deep crisis just like in many Third world countries. Because the Japanese economy has simultaneously realized a position as a great economic power by strong business firms with the largest foreign exchange reserve and the largest net foreign asset in the world. There must be something wrong and unsound in the Japanese economic order and the ways of policy operations.

Among others, the failure of the government to recognize the much lowered growth trend must be a source of deepening fiscal crisis. Japanese government has continuously tended to expect a higher economic growth and therefore a greater amount of State revenue annually, and was actually betrayed by the lowered real growth trend with a wide shortage of tax revenue. Especially in the 1990's, excepting 1995–96 the economic outlook by the Japanese government has been actually betrayed by the real achievement of the economy with the lowered trend, as we see in Table 4-2. The government used to assume that the growth rate around 3 per cent is easily achievable in the Japanese economy, and could not lower its outlook nearer to the actual new trend. After several years, it finally shifted down the growth rate in the outlook closer to the lowered trend in 1997. Even this lowered outlook was betrayed rather fairly widely by the negative rate of growth.

(Table 4-2)

There were reasons for the Japanese government to make the shift down of the economic outlook difficult. While the annual size of budget is directly constrained by the economic outlook, the reduction of expenditures in the budget has been not easy. The government had to expect a higher economic growth in order to draw up budget plans with certain levels of expenditures. On the other side, under neo-liberalism, the government publicly promised to reconstruct balanced budget without tax increase, kept various special tax exemptions for corporations, and actually reduced inheritance tax and land price tax rates for wealthier persons. Thus, while the State revenue tended to stagnate and severely restricted in the real process of depression, the budget expenditure for social security was hard to cut down in transition to an aged society, and the burden of interest payment on public debt continuously increased. Besides, there is an important aspect in the Japanese fiscal crisis originating from a series of State policies to mitigate the difficulties of big businesses.

For example, despite of the government promise to reconstruct balanced budget, national defense and official development aid (ODA) have continued to increase as sacred precincts in the expenditure budget since the 1980's. Even after the end of the Cold War, against the common trend to reduce the military expenditure among advanced countries, the Japanese budget for national defense continued to increase. The Japanese government has taken over more and more shares of costs to keep the US military base in Japan, and purchased more of sophisticated military aircraft and other weapons mainly from the USA. This must be regarded as necessary costs for Japanese politicians and business circle to keep the largest exporting market open in the USA by mitigating the trade friction. Corresponding to the international request, the Japanese ODA rapidly increased to 14.5 billion dollars in 1995, almost twice as much as that of the USA and of Germany. This serves in many cases practically also as a sort of subsidy for the Japanese business firms to expand their multinational activities in the surrounding Asian countries, besides serving as another device to reduce the trade friction with the USA and other countries.

At the same time, the amount of public expenditure has been rather increased and kept at a high level mostly in favour of civil engineering and construction industrial firms, although this is very inconsistent with the neo-liberal policy stance against Keynesianism. The size of public investment in terms of the government fixed capital formation (total investment to public utilities including attached facilities and equipment of the central and local governments minus the costs of purchasing necessary land) against GDP used to be 4 per cent level before 1970. The ratio increased widely to 6 Per cent level after 1972, and reached 6.6 per cent in 1978–79 when the economic crisis began and deepened under Keynesianism. With the turn to neo-liberalism in the 1980's, it declined to 4.9 per cent in 1985 by the request to curb expenditure budget aiming at balanced budget. However, it upsurged again with the policies to expand domestic demand in the late 1980's, and rose also additional emergency economic policies against the persistent deepening depression in the 1990's. Thus the ratio increased to 6.9 per cent in 1996, more than 30 trillion yens in real number. Its relative size against GDP is almost 4 times of the similar ratio in the USA, and more than 3 times of that in Germany.[10] If we add with it the purchasing costs of necessary land and highway construction costs by the public corporation, the total amount of investment in public utilities reaches 50 trillion yens. This occupies 10 per cent of GDP, and is close to total tax revenue of 55 trillion yens in that year. It can not be an exaggeration to characterize Japan as a civil engineering and construction nation State with the enormously disproportionate spending for public utilities.

This enormous amount of expenditure for public utilities directly serves for politicians and bureaucrats to secure their vested interest. Politicians in the government parties can impress their service to their regional voters by its effect to construct utilities and to maintain employment for construction, and can expect political donation from the construction companies. Bureaucrats would expect to secure the descending appointment positions in the related private companies. At the same time, its effect to mitigate the deterioration of prices of land and real estate and to stimulate the land market is also expected. In this regard, the increased public investment contains political intention to help financial institutions with a heavy burden of bad loans relating to the lowered prices of land and real estate.

However, the increased public investment have not worked as an effective pump priming policy in the context of the linkage of depressive pressures in the Japanese economy in the 1990's. The pressure of asset deflation has bee so heavy. Besides, the consumption demand, which occupies about 60 per cent of total demand, has been cooled down by uneasy worries for the future economic life among people, and thus makes the economic recovery harder. Construction and repair of roads and highways would no longer much effect in expansion of domestic sale of cars. Employment effect of public investment became less and less as the civil engineering and construction industry introduced more of heavy machinery to economize direct labour costs. Thus the multiplier effect of public investment in civil engineering and construction has been

[10] Okonogi, K. (1998), p.139–40.

substantially reduced.[11]

Since the monetary policy to set and maintain the extremely low rate of interest, and fiscal policy to add to public investment did not work sufficiently for economic recovery, the threat of asset deflation kept on and spread a possible fear for a chain reaction of failures in financial institutions. Therefore a new type of public spending started. The first case was injection of 685 billion yens of public money into the related financial institutions, when seven specialized housing loan companies failed in 1996. Then under the name to maintain the financial market order, the maximum amount of 60 trillion yens of public money was allowed to be injected into banks and other financial institutions so as to save their failures or to work as saucer banks for depositors of failed banks. This type of new policy works clearly to counter the destructive effect of asset deflation and to protect economic interest of the asset holders among big firms, wealthier persons as well as of financial institutions with bad loans. Sometimes the policy is legitimated as a means to protect general depositors. But as a means to protect smaller amounts of depositors, there must be more economical means such as to strengthen the savings insurance organizations. Anyway direct injection of big amount of public money directly in order to save banks and other financial institutions is totally inconsistent with neo-liberalism. It can not easily legitimated also by the Keynesian theories, and would not signify a return to Keynesian policy stance. From the view of economic theories, it can not be logically explained. It thus shows theoretical confusions in economic policies, though it still basically follows the spirit of company-centered socio-economic order.

Correspondingly, the burden of fiscal crisis of the State has been transmitted broadly to working people. The consumer tax, which is a typical mass taxation, was introduced at a rate of 3 per cent in 1989, and the rate was raised to 5 per cent in 1997. The government misunderstood the increased consumer demand in 1996 due to consumers' behavior to purchase in advance to avoid the announced rise of consumer tax, and believed it as a strong sign for a real economic recovery. The government thus assumed it timely and possible to come back to reconstructing the budget. Therefore it increased the private burden for medical services from 10 per cent to 20 per cent of actual costs, and abolished the special reduction of income tax, besides raising the consumer tax to 5 per cent from April 1997. The total amount of increased burden on the mass of people reached annually 9 trillion yens. The government's optimistic projection, that the effect of such increased burden would be short and light, was widely betrayed. As the consumer demand cooled down again, the Japanese business activity re-strengthened depression. The Asian monetary and financial crises also reciprocally intensified the Japanese economic difficulties. As a result four financial institutions including Yamaichi Security and Hokkaido Takushoku Bank failed in November of the same year 1997, and further deepened the economic difficulty and worry for the future among working people for the following two years by now with rapidly increasing unemployment.

Thus, while neo-liberalism became a basic policy stance to meet and restructure the fiscal crisis of the State, a series of fiscal and monetary policies were implemented

[11] On this issue, Jichitai-mondai Kenkyusho [Research Institute of Local Communities' Problems] (1998) presents an input-output analysis to show a much reduced multiplier effect of public investment.

in favor of big businesses, especially in the civil engineering and construction industry and the financial business area. The swell and burst of huge bubbles was initiated and promoted by such operations of economic policies. In the 1990's depression, the scale of monetary and fiscal policies was rather extended as we have seen. Those concrete policy operations served to mitigate the crises of financial institutions, big businesses and wealthier persons in the process of asset deflation. However, they are clearly inconsistent with neo-liberalism, theoretically confusing as in the case of injecting huge public money into financial institutions, exasperated the fiscal crisis of the State, and still have not work well for macro economic recovery. In the meanwhile, the burden of fiscal crisis of the State has been sifted more and more to households of living and working people in the form of increase in consumer tax and personal payment of medical services among others.

The whole operation of recent Japanese economic policies is in these regards thoroughly capitalistic despite of its theoretical confusion and inconsistency. It pays little attention to the economic difficulties with increasing worries for the future among living and working people. It does not present proper social policies to solve the problems concerning a rapid fall in birthrate, a transition to an aged society, and the worsening employment conditions with increasing unemployment. The depressed consumer demand by worrying working people tends to counter the economic recovery and consequently the reduction of bad loans. The failure of economic policies in 1997 as we noted typically exemplifies such a problem in the Japanese economy.

Can we not hope to convert such a basic direction of Japanese economic policies? It must be surely desirable from the view of economic democracy to change the excessively capitalistic policies, putting priority to big business with huge amount of public investment. The potentiality of the Japanese economy can and need to be redirected so as to form a strong economy for living and working people with stable social policies easier to grow children. Such a conversion of basic policy stance may not instantly enable to overcome the lowered trend of economic growth. However, the current vicious circle between the worsening employment situations with increasing unemployment and the deflationary pressure in the economy can be solved and stabilized by restoring an easy and more guaranteed feeling for the future among people so as to revitalize consumer demand from below. Anyway, neo-liberalism as well as the inconsistent emergency economic policies in favor of big business and financial institutions need not be believed as inevitable policy options for the Japanese economy. It is rather counter-progressive and destabilizing.

It is unfortunately difficult to find effective political parties in the contemporary Japan to present such critical policy options for working people, excepting still relatively small Japanese Communist Party. As The Japanese Socialist Party changed its character, became a government party once in cooperation with the conservative Liberal Democratic Party, and altered its name into Japanese Social Democratic Party in the 1990's, following the dissolution of Sohyo with weakened left-winged labour movements. However, this unfortunate political situation would not discount but in a sense elevate the importance of critical analyses of the roots of degeneration and confusions in Japanese economic policies for the future of economic democracy and socialism.

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