

Desirable Direction of Japan's New Economic Policies

By Noboru HATAKEYAMA

Japan's unemployment rate seemed to be decreasing recently. However, it rebounded last November to 5.2% from 5.1% in the previous month. The unemployment rate is calculated by dividing the number of unemployed people by the working population, which hit a peak in 1998. If the working population last November had been the same as at its peak, Japan's unemployment rate would have been 8.0%. The shortage of economic demand is often blamed for increasing unemployment. The amount of demand is said to be 7% (35 trillion yen) less than that of supply as of now. The issue of demand shortage would have been addressed through increased public works spending 10-15 years ago. However, because of the serious fiscal deficit, increasing public works would be impossible nowadays. The cumulative amount of Japan's central and local government debts will become 1.8 times its GDP by the end of FY 2010 in March 2011.

Public investment in the GDP statistics hit its peak in 1996 at 42.6 trillion yen as compared to 19.7 trillion yen in 2008. Reportedly, Prime Minister Yukio Hatoyama has decided to reduce the FY 2010 budget for public works to a level 18.3% less than in FY 2009 under the motto "from concrete to people."

Instead of increasing the public works budget, the new administration decided to give child-rearing allowances to families with children until they finish middle school and to pay public high school tuition fees on behalf of parents. If these policies are translated in the context of macroeconomics, it is said that they are aimed at consumption rather than investment and at people rather than corporations. However, in terms of the size of these budgets, the total amount of these items is only around 2.7 trillion yen, which is too small to substitute for public works spending.

Then, what else can be taken into consideration to stimulate Japan's economy?

First, the most realistic way is to increase exports. Japan's export dependency ratio is still below the level of European countries, including Germany (40%) and France (20%). Since the turn of the century, it started going up from 11% in 2000 to reach 17.5% in 2008. However, due to the current economic crisis, Japan's exports plunged 49.4% in February 2009 on a year-on-year basis, for example. This plunge was the second worst record since 1930, just next to the 59.4% nosedive in 1942 right in the beginning of World War II. Although the recovery in exports had been very weak, November saw an encouraging figure. The export

decline in the month was only 6.2% compared to a year earlier, recording a single-digit fall for the first time since October 2007. The main reason for this was exports to China having increased 7.8%. The plus growth of exports to China was the first since September 2007.

One of the reasons for Japan's export slump is the high yen exchange rate. The yen kept rising against the US dollar for the 28 months until last November. The currencies of countries with big trade surpluses should logically rise vis-à-vis the dollar. In this respect, the Chinese renminbi should go up as well. However, China still controls its capital market, thereby fixing the renminbi rate to the dollar. We cannot control the yen rate. But a free fall of the dollar and a virtual linkage between the renminbi and the US currency are neither in the interests of the United States nor China in the long run. The G-7 should cooperate to prevent rampant rises and falls in the dollar and to have the renminbi exchange rate determined through the market forces of supply and demand.

Secondly, it is important to implement deregulation eliminating the barriers that stifled the birth of new industries. Typical examples included allowing the purchase of mobile phone handsets that had been prohibited until 1994. Only rentals from NTT were allowed until then. However, since the introduction of the purchasing system, demand for mobile phones exploded. The deregulation introduced also in 1994 in brewing local brands of beer was another example. Until then, beer brewing was licensed only to a few large companies because of tax collection convenience. After the deregulation of local brewing, flowers of restaurants blossomed even in the countryside, serving diversified local beer. As are shown in these two examples, what is necessary is to introduce deregulation which will bring about expansion of job opportunities. In the areas of alternative energy and nursery care for the elderly and children, there are some regulations preventing new industries from starting. Those regulations kept inefficient industries or companies alive. Through competition brought about by deregulation, less competitive industries or companies will disappear, thereby creating a productive industrial structure. **JS**

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