

1987: No Rabbit in the Hat

Restructuring for Balance

By Takuji Matsuzawa

Both optimistic and pessimistic views are heard today about the prospects for Japan's economy in 1987. Some optimists believe the economy will rebound as an economic recovery in the United States boosts Japanese exports to that country. Others also expect increased public spending to stimulate domestic economic activity.

I myself hold a somewhat pessimistic view. Inventory corrections are likely to run their course this spring, bringing a halt to the slowdown in economic growth that has continued since the latter half of 1985. But there is little reason to believe the economy will follow an expansionary course thereafter. In previous recovery periods, the completion of inventory adjustments was followed by the expansion of domestic demand through increases in exports or government spending.

This year, however, it will be difficult to expect exports to pull the economy out of its slump. Not only will export volume continue to shrink as a result of the yen's appreciation against the U.S. dollar, but the economy of the United States, Japan's largest export market, will likely remain in the doldrums. Even if the American economy stages a recovery, Japan's exports to the U.S. will not increase. This is because a U.S. economic recovery, if it occurs, will stem from the contraction of the country's trade deficit, and particularly from a drop in the growth rate of imports.

On the fiscal side, the Japanese government will take further stimulative measures this year, but I do not believe they will put the economy on the path to recovery. For example, even if the same amount of public works spending is included in a supplementary budget in fiscal 1987, as there was in fiscal 1986, such increased spending will not contribute substantially to growth. It will be extremely difficult to expand spending suf-

ficiently to turn around the economy, not only because such a course is impractical in light of the slowdown in the growth of tax receipts, but also because large spending increases would exacerbate the already serious state of public finance.

In short, my prediction is that the Japanese economy in 1987 will come to the end of its slump, but that the force of recovery will be extremely weak. The Fuji Bank estimates the real rate of GNP growth for 1987 at less than 2%.

Aside from the short-term business cycle, 1987 will be the year in which Japan's economic structure, now excessively reliant on exports, begins to shift toward one in which internal and external demand is reasonably balanced. The need for such adjustment is now widely recognized given the background of continuing trade friction between Japan and the United States. The restructuring of the Japanese economy to ensure balanced growth of internal and external demand is also of great significance in improving the living standard of the Japanese people.

It is clearly necessary, and now also possible, for this country to divert part of its productive capacity used for the promotion of exports to domestic needs—namely, the expansion of social infrastructure and improvement of the people's well-being. Japanese today are enjoying affluent consumerism such as they have never experienced before. But the housing situation and living environment in big cities, and the social and industrial infrastructures in provincial regions, still leave much to be desired.

It needs to be emphasized here that inasmuch as Japan upholds the principle of free enterprise, economic structural adjustments should be undertaken primarily at the initiative of private enterprises on the basis of market principles. It is essential, however, that the gov-

ernment play a positive role in creating conditions conducive to such adjustment, or conditions that would ease the "pain" of adjustment.

The first condition for promoting structural economic adjustment is to keep private enterprises fully informed about the direction of and the prospects for long-term adjustment. A second condition is to devise various means of expanding domestic demand. It is, however, extremely difficult to rely heavily on public spending. The state of public finance in Japan is as serious as in the United States. What is important is to create conditions that will make it possible, through deregulation, for the private sector to make the utmost use of its own vitality.

Structural adjustment is bound to cause pain in various sectors of the economy. At the macroeconomic level, problems such as slower growth rates and reduced job opportunities will arise. At the level of individual industries and enterprises, many export-oriented businesses are likely to close down or diversify into new fields. It is essential, therefore, that appropriate measures be formulated to ease the pain of adjustment and make sure that the economy makes a "soft landing."

As the chairman of Keidanren's Committee on International Coordination of Economic Policies, I would like to promote studies on ways to facilitate such adjustments and make the necessary proposals in the future.

Needless to say, the restructuring of the Japanese economy cannot be carried out in a short span of time. This is a herculean task that will take years to accomplish. After all, it took Japan 40 years to build its export-oriented economic structure. That the growth rate for 1987 will stay at a relatively low level is an indication that the country is about to enter a period of structural adjustment.

Finally, I would like to stress that the United States must change its import-oriented economic structure and reduce its budget deficit in order to resolve its trade friction with Japan. I strongly hope the two countries will begin positive efforts to restructure their respective economies in the coming year. ●

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