

Japan's Response

Expanding Domestic Demand

By Akio Ikemori

Along with opening domestic markets to foreign products, demand expansion is essential to resolving Japan's economic frictions with its trading partners by achieving expanded equilibrium in the domestic economy. Fully aware of this, Prime Minister Yasuhiro Nakasone revealed on July 30 last year that a working group for domestic demand expansion would be created within the government.

A policy on domestic demand expansion was subsequently adopted on October 15 after two months of study by the Working Group for Domestic Demand Expansion of the Ministerial Conference for Economic Measures.

Aimed at eliminating economic frictions, the policy is different from previous plans to invigorate domestic business. It was shaped through close coordination with the ruling Liberal-Democratic Party (LDP), which announced its own 17-item domestic demand promotion program recommendations on October 3.

The LDP recommendations were compiled by the Project Team for Promoting Domestic Demand, chaired by Masayuki Fujio, chairman of the Policy Affairs Research Council.

The two-pronged government policy on domestic demand expansion spells out measures to be implemented immediately and in the near future. The first set of measures includes promotion of private housing investment and urban development, promotion of private investment in plant and equipment, encouragement of personal consumption, and expansion of public works.

Outlined below are the salient points of these four proposals:

1. Promotion of private housing investment and urban development

The Housing Loan Corporation will expand the framework of loans for private housing and will make an additional ¥500 billion (\$2.4 billion) contribution to

the lending framework. The application period will also be extended.

Guidance will be given to local public entities to review existing zoning arrangements in order to facilitate housing and urban development. Steps will be taken to increase existing "volume-ratio bonuses" for outstanding projects.

Efforts will be made to sell 71 state- and public-owned tracts of land by March 1986, for the efficient use of state- and public-owned property in urban areas.

In order to promote expansion, renovation, and other housing reforms, efforts will be made to build up a comprehensive renovation supply system, develop and propagate related technologies, and provide necessary information.

Concerned government agencies will maintain close coordination for the early implementation of these measures.

2. Promotion of private investment in plant and equipment

Electric power companies will be encouraged to make additional investments of about ¥1,000 billion (\$4.9 billion) by fiscal 1988 to improve the reliability of the power business and to lay underground cables.

The gas industry will be encouraged to invest ¥100 billion more for better services over the next three years.

3. Encouragement of personal consumption

Banking institutions will be urged to extend the hours of cash dispenser (C.D.) service.

Installment payment terms will be eased.

4. Expansion of public works

An additional outlay of ¥1,800 billion (\$8.8 billion) will be made to finance public works expansion projects. Advance contract authorization by the government will be used to raise funds for general public works. Local public bonds and other suitable means will be employed



Promotion of housing investment is one of the major government measures for expanding domestic demand.

for local independent works, including drainage and sewerage projects.

In addition to these immediate measures, the plan calls for serious studies to be undertaken on ways to bring private sector vitality into public works, as well as on deregulation and the wider application of the five-day workweek.

For domestic demand expansion measures related to the national budget and taxation, studies will be continued on the budget compilation process and tax reform.

Several tentative calculations suggest the potential impact of the above measures. The Economic Planning Agency projects that imports will rise by \$2 billion over the next year. The forecast is based on the assumption that projects executed in line with domestic demand promotion measures will reach ¥3,100 billion (\$15 billion) and that the figure will jump to ¥4,100 billion (\$20 billion) in nominal GNP terms, if peripheral effects are included. The effectiveness of the immediate measures can be further amplified by effectively implementing longer-term proposals.

The U.S. economy can hardly be expected to expand as rapidly in 1986 as it did in 1984. The Japanese economy, too, is overshadowed by growing uncertainty. Since the Group of Five meeting last September, the yen has continued to appreciate against the dollar. What Japan must do under these circumstances is promote domestic demand-driven economic growth. The new demand expansion policy is a significant step toward this goal. ●