

# US Stock Prices, a Major Theme behind the Scenes of the G-7 Meeting

By Tani Sadafumi

A meeting of finance ministers and chiefs of the central banks from seven advanced nations (G-7) was held in Washington, D.C. on 15 April (16 April morning, Japan time). While the joint statement, made public after the meeting, required that "US monetary policy should continue to be prudent," it pointed out on the other hand "the importance of Japanese macro economic policies which are meant to support a domestic consumption driven sustainable growth." At this G-7 meeting, the currency exchange rate was not taken up as a key issue, and the statement did not refer to "a concern for the yen's appreciation." No reference was made in the statement to US stock prices, which had shown a steep fall on the preceding day.

Japan's concern at recent G-7 meetings has been centered on the currency exchange rate. The government and the Bank of Japan have been concerned that "the strengthening Japanese economy might be derailed from its due course of recovery, should a premature and rapid escalation of the yen's value remain unaddressed." (Kuroda Haruhiko, Vice Minister of Finance for International Affairs) Attempts were made to appeal to other member nations so that such concerns would be reflected in G-7 statements.

As a result of such appeals, Japan succeeded in including references to "the shared concern about the yen's appreciation" in the statements of two consecutive G-7 meetings, one in Washington, D.C. on 25 September, 1999 and the other in Tokyo, on 22 January, 2000. It was unusual for a particular currency to be singled out in a G-7 statement. Since Japan has had a balance of payments surplus for a number of years, it is hardly conceivable that the other G-7 nations would accept an

export-oriented recovery plan. The fact that "the shared concern about the yen's appreciation" had nevertheless been included in these statements amply illustrated how gravely Western nations were concerned about the future of the Japanese economy.



Finance heads pose outside Blair House in Washington, April 15, 2000

Photo: AP/WWP

Finance Minister Miyazawa Kiichi, speaking of his hopes for the April G-7 meeting, before he set out for the meeting, said "whether the statement will refer to the 'shared concern about the yen's appreciation' or not will be one of the focal points at the meeting." Many officials who worked on this matter in the government and at the Bank of Japan, however, felt that "it might be difficult this time."

The statement of last September explicitly mentioned, "we shared Japan's concern about the potential impact of the yen's appreciation for the Japanese economy and the world economy." On the other hand, the last January statement was slightly toned down, mentioning "..... in view of their concern, which we share, about the potential impact of the yen's appreciation for the Japanese economy and the world economy."

This toned down statement, however subtle, can be interpreted as a reflection of the reality that the Western nations had not been fully content with the review of the yen's appreciation. Although at the beginning of this year, the future prospects for the Japanese economy looked good, especially compared to last fall, the recession was by no means over, and the foreign exchange market seemed to be comparatively placid. It may be assumed that the inclusion of a reference to "the shared concern about the yen's appreciation" in a restrained form within the January G-7 statement, was allowed as one of the "privileges" of the chairing nation.

In April, however, the G-7 nations, with the exception of Japan, did not dare to recognize a necessity for the singling out of the yen. As a result, the statement merely mentioned their view in general terms that "we emphasized our view that exchange rates among major currencies should reflect economic fundamentals."

With regard to Japan, more attention was paid at this G-7 meeting, to its monetary policies rather than the currency exchange issue. At the regular press conference on 12 April, three days prior to the meeting, Hayami Masaru, Governor of the Bank of Japan, referring to "the zero interest rate policy," in which the rate of uncollateralized overnight call money had been substantially led to zero per cent, indicated his positive posture towards the early departure from that policy, saying, "this is an abnormal rate in an abnormal situation and this should be normalized at the earliest possible opportunity." According to the Governor, the Japanese economy was in a phase where; (1) investments in

production equipment showed an improvement, and, (2) personal consumption did not look so bad in its recovery process, though it was taking time. His remarks can be construed as the clarification of his willingness to abandon the zero interest rate policy, once it is demonstrated that a brighter outlook in the corporate sector begins to have more impact on household consumption.

To be more specific, he seems to be willing to lead the rate of the short term inter bank market, which has been sticking to a substantially zero level (0.02 per cent), to an annual 0.25 per cent level. Since the current official discount rate is 0.5 per cent, that is to be seen in a cooler observation merely as a reversion from "the abnormal ultra low rate policy" back to "a normal ultra low rate policy," rather than being seen as a conversion to a tighter monetary policy.

Hayami's remarks, however, had an impact at home and abroad. Finance Minister Miyazawa did not try to conceal his feelings, saying; "it is a headache for someone who is setting out for the G-7 meeting," while explaining Governor Hayami's real intent as "an attempt directed at better communication with the market," and with the future abandonment of the zero interest rate policy in mind.

In fact, Hayami's remark provoked loud voices of criticism among Western nations. Lawrence Summers, the US Treasury Secretary, expressed his discomfort, saying; "Japan should not dare to take an unnecessary risk by changing its current policies which are meant to realize the recovery of its economy on the basis of a stimulated domestic consumption." Stanley Fischer, First Deputy Managing Director of the IMF, criticized Hayami's indication, saying, "nothing can be considered as a proper reason to justify a conversion to a tighter monetary policy." And Hans Eichel, the German Finance Minister, gave a warning to a premature conversion of monetary policies, saying; "Japan should keep, by any possible means, the policies of stimulating domestic consumption, as far as a real improvement is not in sight with its economy." The only exception was Willem F. Duisenberg, President of the

European Central Bank, who spoke out "in support of Hayami's remarks."

The fact that these nations responded so nervously is nothing other than a reflection of their concern that the Japanese economy might be stalled if the support of macro economic measures is removed, resulting in an expanded imbalance of payments.

Regarding 2000 GDP growth, the IMF, in its periodical the *World Economic Outlook*, issued just before the G-7 meeting, revised its estimates for Japan from 1.5 per cent to 0.9 per cent, while raising its estimates for most of the other advanced nations. Such are the views of Western nations that Japan is "required to mobilize," for the sake of an immediate effect, "any sorts of macro economic measures," (Summers, the US Finance Secretary) in spite of the critical importance for Japan of structural change.

Ultimately, almost similar to the cases of the last two consecutive G-7 meetings, a clause was included in the statement to read, "the Japanese authorities decided to continue, in the context of their zero rate policy, to provide ample liquidity to ensure that deflationary concerns are dispelled."


Governor Hayami emphasized at the press conference immediately after the meeting that he did not see this clause as such an international commitment to be binding on future choices of policy options, saying; "the mere fact that the continuance of a zero interest rate policy was decided on 10 April was delivered (at the meeting)..... but nothing was discussed about future actions." It is true that the G-7 statements do not enjoy such a binding power as are enjoyed by international treaties. But in general G-7 meetings have functioned as a basis for "peer pressure." The reference to the zero interest rate policy in the statement should reasonably be considered to influence the decision making of the Bank of Japan.

A matter of common interest, or rather, a matter of common concern at this G-7 meeting, was US stock prices. The finance ministers and chiefs of the central banks who gathered in Washington, D.C. were greeted by a tough welcome of a steep drop in the Dow and Nasdaq. It has been pointed out from time to time that

US stock prices are abnormally high and reflect a "bubble economy" trend, and there has been a not unfounded apprehension that a collapse of US stock prices would trigger a simultaneous plunge of stock prices on the world markets. It has even been suggested that New York stock prices are only sustained by the confidence held by the market in the competent steering of monetary policies by Alan Greenspan, Chairman of the Federal Reserve (FRB).

US stock prices dropped steeply on 14 April, the day before the G-7 meeting. It would, under the circumstances, have been natural to discuss this at the meeting. However, "they were not in fact discussed formally, but were mentioned in passing and on occasions at meal time." (Finance Minister Miyazawa) In this context, the joint statement did not make any reference to US stock prices. What is perhaps worth mentioning is that the delicate sentiments of the participants were reflected in a reference to US policies that reads; "fiscal surplus policies should not be relaxed, monetary policies should continue to be prudent."

Secretary Summers, asked at a Press interview immediately after the G-7 meeting about his views on the plunge of stock prices, indicated his firm confidence in the future of the US economy, saying; "inflation is satisfactorily contained. The GDP growth may fluctuate quarter by quarter, but the fundamentals of the economy will continue to be robust."

"US stock prices were treated with the utmost delicacy as though they were a fragile article." (a source accompanying Finance Minister Miyazawa) It is said that the participating nations pretended to have little interest in how the market would respond if any sort of reference were made in the statement. No one can deny, however, that New York stock prices were at the back of everybody's mind at the 15 April G-7 meeting. 

*Tani Sadafumi is an Editor in the Economic Division of Jiji Press Co., Ltd. His work focuses on the Bank of Japan and the Ministry of Finance. At the Washington branch of Jiji Press, he specialized in matters of trade and industry.*