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Author
Itoh, Makoto

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Makoto Itoh

Faculty of Economics
University of Tokyo

"Is the Japanese Economy in Crisis"

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Is the Japanese Economy in Crisis?

(An Outline)

Makoto Itoh

(The University of Tokyo, Faculty of Economics)

As crisis originally means a 'turning-point, especially of disease' (COD), economic crisis signifies a serious destructive economic situation which enforces structural changes for a new turn of the economy. The Japanese economy is in crisis in this regard since 1973. Japanese working people had suffered from hardship similar to that of workers in most of other countries in the world. The speciality of Japanese economy in the increased competitive power in the world market does not much serve to mitigate but is rather based upon such hardship among Japanese working people.

In order to understand the extended and historically specific character of this crisis in the Japanese economy, it is necessary to see it as a part of a global crisis which forms a third great depression in the capitalist world history, following the first 1873-93, and the second 1929-39. Although logical inevitability of long waves of about half a century lengths is hard to prove as a general theory, long wave theories are an useful frame of reference in analyzing such great depressions. The post-World War II high economic growth can well be seen as an upswing of a long wave which culminated at the beginning of 1970s, and turned to a large-scaled downswing of the same long wave.

The moments to make a turn from an upswing to a downswing in long waves should not be over-generalized. Interestingly, however, in the case of the turn at the beginning of 1970s, we see that a basic Marxian crisis theory, which stresses the over-accumulation of capital in relation to laboring population in causing profit squeeze as well as the increased instability of credit system, has applicability and actual relevance. Kozo Uno (1897-1977) and his followers have refined this type of crisis theory as a part of the analysis of regular business cycles, by deducing it from Marx's Capital upon the historical ground of mid-19 century capitalism(1). It was out of our expectation until 1960s that our refined crisis theory could be applicable so nicely to the contemporary turn from a long prosperity to a great depression. Restructuring of capitalist economies during this process of great depression then reveals, in my view, unexpectedly, a significant retrogression to forms of capitalism over a century ago. Since the period of first great depression in 1873-96, capitalist development continuously intensified three combined features: namely (1) an increase in the scale of investment in immobile fixed capital which tended to promote monopolistic capitalist behavior and organizations, (2) growth of trade unions among male experienced workers who were concentrated in heavy industries and public sectors, and (3) extension of the economic role of the state in one way or the other which took the form of Keynesianism and welfare policies in the cold war period. These three features seemed jointly to restrict more and more the economic function of the competitive free market, and to widen the way for more social control of economies.

By contrast, the impact of micro-electronics (ME) information technologies, together with the heavy pressure of the recent great depression, has reversed all these developments and reactivated competitive markets everywhere in capitalist economies. Neo-liberalism became the dominant policy trend in the world in 1980s, not just as the anachronistic reaction to the failure of Keynesianism, but as a summary expression of such broad change in the historical trend of capitalist economy.

This is my fundamental view of the recent world economic crisis since 1973, and it will serve as a frame of reference for my subsequent analysis of the Japanese economy in crisis(2).

1 The Origins

The origins of economic crisis as well as the causes of the special features of the crisis are usually found in the preceding phase of prosperity. In the 22 years from 1951 the Japanese GDP grew by 9.2% per annum on average, making it 7 times bigger as a result. We have to clarify what were the major factors for the continuous high economic growth in the Japanese economy in this period, and why and how they were lost toward the end of that period. In this respect four factors as follow were essential.

(1)Favorable international environment. In contrast to the period after the World War I, the cold war favored Japan and the other defeated countries. The severe war reparation plan just after the war was much toned down so as to make Japan 'a bulwark against communism'(3). The special procurement demand by the USA for the Korean War in 1950-53 gave a real spring board for the Japanese high economic growth.

Then, the historically high rate of economic growth (about 5% a year on the average) in 1950s and 60s of all the advanced capitalist countries, together with an even more rapid rate of increase in world trade (annually about 7.6%) under the spirit of GATT free trade, enabled Japan relatively easily to expand her export, which was necessary for her rapid economic growth by increasing import of oil and other primary products as well as new technologies.

The fixed stable exchange rate of 1 dollar = 360 yen since 1949 under the Bretton Woods international currency system was initially strongly inimical to Japanese exports, but as Japanese industrial productivity rose, gradually changed its function and made Japanese manufactured goods internationally cheaper and easier to export in 1960s.

The loss of all the Japanese colonies and territories abroad by defeat in the World War II was seen as a great misfortune just after the War. However it, ironically, turned out to be an advantage not having to cope with liberation strife of the third world countries. The low level of military costs, which was politically promised to be below 1% of GNP, under the pacifist constitutional law, enabled Japanese society and economy to concentrate on economic growth.

(2) Availability of new technologies. A wide range of industrial technologies was available for the post-War Japanese economy mainly from the USA. Modernization of Japanese industries could easily utilize it so as to catch up with the US economy. The international cooperative framework in the capitalist world under the US hegemony and domestic conditions, particularly the high adaptability of Japanese general workers to new technologies, based on a continuously raised level of education, as well as of the attitude of company-based trade unions, enabled Japanese firms to transplant modern industrial technologies one by one from the USA.

Throughout this process, production and utilization of various consumer durables became more and more generalized and upgraded in Japan, finally turning the country into an automobile society. In the same process, large-scale heavy investment in plant and equipment was a main drive of industrial development. At the same time Japan was forming a high energy consumption type of economy, in particular a high oil-consumption economy. The proportion of oil in Japanese energy supply increased from 20.5% in 1955 to 77.6% in 1973.

(3) Favorable terms of trade. In the meanwhile, the increased supply of cheap oil, at below 2 dollars a barrel, was continuously available as a result of growth of supply of oil from the countries in the Middle East. Dollar prices of other primary products like iron ore, wood, cotton, corn also remained low in the world market until the end of 1960s. The Japanese terms of trade, thus, improved by 10% throughout 1950s and maintained that level in the 1960s. Since productivity of Japanese manufacturing industries must have risen more rapidly than that of most of primary industries abroad, the labor costs for the Japanese economy to obtain a certain quantity of primary products from abroad must have been definitely reduced.

(4) Relatively cheap and docile labor-power. As the proportion of primary industries in the whole Japanese working population fell from 54.2% in 1947 to 12.7% in 1975, the number of Japanese wage workers increased from 14.2 millions in 1950 to 33.8 millions in 1970 by almost 20 millions. As well as an increase in the whole (working) population, a wide shift of working population from primary industry (mainly agriculture) provided the necessary numbers of relatively cheap labor-power for rapid growth of urban secondary and tertiary industries. On this broad basis, the Japanese style of labor management, which is composed of the lifetime employment system until about 55-60 years old, a wage system in seniority order, and company based trade unions, was generalized among big businesses as a resultant compromise with militant labor movement just after the World War II. Such a Japanese style of labor management promoted loyal and cooperative attitude among Japanese workers. It cannot be attributed to Japanese traditional family culture, as it has not much spread to small and medium businesses or to the irregular employees in big businesses.

Utilizing relatively cheap and docile labor-power, Japanese manufacturing industries could increase labor productivity by 3.99 times (9.7% annually) in 15 years during 1955-70, whereas real wages increased by 2.29 times (5.7% annually) in the same period. It is noteworthy that the Japanese high economic growth was mainly dependent on the expanding domestic market, by maintaining a relatively low rate of export dependency (export/GNP) around 10%. The increase of real wages together with a big increase in wage workers was a decisive factor for the expansion of the domestic market. However, two additional factors were necessary to bridge a wide gap between the increase of labor productivity and the slower increase of real wages. This is different from a pure model of 'Fordist regime of accumulation'(4).

One of such factors for the expanding effective demand was provided by the continuous rise in income of agricultural families in parallel with the rise in real wages. Indeed, this period was exceptional in Japanese history, as it experienced substantial improvement of economic conditions in most of rural areas equally as in urban areas.

The other was private investment demand in plant and equipment, which grew in real terms as fast as 22% per annum on an annual average in 1956-73. It occupied 25.1% of Japanese GDP in 1973. Beside a high rate of profit to be reserved for reinvestment, 40-50% of the fund for investment came from so-called over-loan of banks which could gather 15-20% of private disposable income with almost zero real rate of interest for depositors.

The high economic growth of Japanese capitalism dialectically eroded its own basic conditions. Both internationally and domestically the conditions which were essential to the Japanese continuous stable high economic growth became eroded and lost.

In an international framework, the strengthened competitive power of Japanese industries as well as that of Germany began to challenge and imperil US economic hegemony by reversing US trade balance from surplus to deficit in 1971. As a result, the convertibility of the dollar into gold, the basic core of the Bretton Woods international currency system, was suspended by Nixon in the summer of 1971. Via the transitory Smithsonian floating peg system, the international currency system was transformed into a full floating exchange system in March 1973. The whole transformation was apt to promote wild inflation.

A series of industrial advanced technologies which led the US economic hegemony up until 1960s came close to maturity and innovation became necessary in order to reactivate further industrial development.

The continuous industrial capital accumulation in the advanced countries with a much energy- and resource-consuming type of technologies until 1960s became excessive in relation to the limited flexibility of supply of primary products. A result was a rapid rise in prices of primary products, reflecting a changed balance between demand and supply for suppliers. Japanese capitalism contributed to this change in the world market, as it absorbed an increasing portion of primary products. In 1975, for instance, it obtained 19% of mineral fuels and related materials exported to developed countries. The first oil shock should not be seen as an entirely external blow given by OPEC, but should be regarded as one of results of global overaccumulation of capital. Due to a sharp rise in prices of primary products, Japanese terms of trade was worsened widely by 32% in 1970-74.

At the same time, an overaccumulation of capital appeared also in relation to the size of Japanese working population for the first time in its history. As a result, nominal wages in Japanese manufacturing rose by 63% in 1970-73. After deducting a rise in consumer price index, real wages rose by 31%. When deducting a rise in GDP deflator for manufacturing from nominal wage index, we find that the rise in 'product wages' in manufacturing was 44% in these 3 years. Since the labor productivity in Japanese manufacturing rose only 27% in the same period, the profit share declined from 40.7% to 32.9%.

The success of trade unions in raising base wages widely in Shunto (regular spring labor offensive) in this period was grounded on the much advantageous conditions in the labor market, and not so much on the strengthened union organization. Loosened labor discipline like absenteeism was seen even in Japan in this period, also reflecting the very favorable conditions in the labor market, but was not generalized widely enough to destroy the loyal and docile attitude of workers in Japanese firms as a whole. The disruption of the preceding capital-labor relations at work places could not be a major cause of the decline of the rate of profit at least in the case of Japan.

Anyway, combined with a sharp rise in the prices of raw materials and fuel, the rise in wages pushed down Japanese rates of profit sharply by 39%, from 32.0% to 19.6%, in business corporations as a whole, and by 28%, from 46.9% to 33.5%, in manufacturing in 1970-73, <u>before</u> the major effect of the oil crisis appeared. In addition, the social reaction against pollution of the air and water made the continuous investment in much oil-consuming type of heavy industries more and more expensive. In these circumstances, investment in plant and equipment became stagnant at the beginning of 1970s. Lax financial conditions no longer activated real capital investment, but induced speculative transactions of imported raw materials, oil, and real estate.

Thus, as a result of sustained capital accumulation in its allotted position within the US global hegemony, Japanese capitalism was forming a part of economic difficulties of overaccumulation of capital. A serious crisis was being generated also in Japan. The whole situation signified a standstill of the preceding type of capital accumulation and exhaustion of potential of its global framework. Restructuring of both the domestic conditions and the global framework was necessary ever to prepare a new upswing.

2 The Phases

Although the Japanese economy is often seen as exceptionally strong, stable and harmonious, being exempted from the global great depression, it has actually been in a continuous process of crisis and transformation. The Japanese growth rate sharply declined to 3.7% on annual average between 1974 and 1984 from above 9% in the period of high economic growth. The Japanese economy has become very unstable and experienced the following, widely changing, phase:

(1) <u>A serious inflationary crisis, 1973-75.</u>

Forming a part of the overaccumulation of capital in world capitalism, Japanese capitalism was suffering from a falling rate of profit due to the increase in both real wages and the prices of primary products from abroad by 1973. In contrast to the classic process of economic crisis in the periodical business cycles of the 19th century, the supply of money and credit in this case was not restricted and reduced, but widely expanded as a result of breakdown of the Bretton Woods international monetary system. As a result, speculative trading and inflation became pronounced all over the world.

The first oil shock which quadrupled the price of crude oil in a short period from the end of 1973 gave a heavy blow especially to the Japanese economy by accelerating inflation wildly. It is because the

Japanese economy depended on imported energy by 90%, most highly among the advanced capitalist countries. At the same time, the Japanese government consciously implemented an 'inflation adjustment policy' and promoted inflation, in order to mitigate the bad effect of appreciation of the yen against the dollar on Japanese export industries. As a result the real rate of interest in 1973-74 became very negative in Japan, more so than in any other of the major advanced countries.

As wholesale prices went up by 31.6% in 1974, speculative stockpiling of various raw materials increased enormously and disturbed the Japanese economy. While in the classic type of crisis in the mid-19th century the difficulty of overaccumulation of industrial capital used to be converted into a shortage of loadable capital, money as means of payment, accompanied by an overabundance of commodities, a similar difficulty of overaccumulation appeared this time in the totally reverse forms of superabundance of money and credit and scarcity of commodities.

The Japanese annual economic growth rate declined by 10% from 8.8% in 1973 to -1.2% in 1974, in which the direct effect of the increased price of crude oil was estimated to have caused 3.8% reduction. As the profit rate in Japanese manufactures fell from 33.5% in 1973 to 10.4%, or to less than one third, in 1975, Japanese manufacturing and mining fell rapidly by more than 20%. One in three Japanese firms was estimated to be running at a deficit at that time. Thus, in all these aspects, Japan was experiencing one of worst inflationary crises of the advanced capitalist countries.

Although Japanese unemployment also increased from 1.3%(0.7 million) in 1973 to 1.9% (1.0 million) in 1975, it was clearly quite low in comparison with other advanced capitalist countries. There were at least three reasons for this. First, Japanese firms still maintained life long employment policy by believing that the crisis would not last long. Second, the official definition of unemployment is very narrow in Japan, and for the figure to be comparable with other advanced capitalist countries it should be at least doubled. Third, the tertiary sector was still growing, and increased its employment by 0.9 million in 1973-75.

(2) <u>The recovery by export and spending policy 1976-79</u>.

Japanese economy recovered its real economic growth rate to 4.8% in 1976 and maintained its level above 5% until 1979. There were two major factors for this recovery.

Firstly, Japanese exports increased from $56 billion in 1975 to $98 billion in 1978, along with the economic recovery in the USA, which was by far the largest market for Japanese exporters. Japanese trade balance turned from a deficit to a surplus, and estimated to have pushed up Japan's GNP by 2% in each of these years. Together with the effect of appreciation of yen from 271 yen a dollar to 297 yen due to the oil crisis, the extensive 'rationalization' was powerfully pursued so as to expand Japanese exports.

By restrengthening labor discipline, shutting down inefficient old lines and workplaces, and introducing ME automation systems, labor productivity in Japanese manufacturing increased, at a remarkable 9.2% annual average in 1975-80, much higher than even in 1960-65. In the same five years real wages remained very stagnant and rose just 1.7% at annual average, typically expressing a new feature of Post-Fordism in Japan. The gap between productivity and real wages, which represented both pressure of depression and corporative attitude of Japanese workers, was much utilized to intensify Japanese industrial competitive power in the world market.

Secondly, the Japanese government pursued a sort of Kenesian strategy and expanded public expenditure despite of stagnant tax income. As a result, the balance of government debt increased from 13.2 trillion yen (11.3% of GNP) in 1973 to 95 trillion yen (39.7% of GNP) in 1980. This surely helped to reactivate Japanese economy.

It is remarkable that this huge increase in government debt did not fuel inflation. The annual rate of increase of wholesale prices rather decreased to 3.0% in 1975 and stayed at the moderate average level of 2.9% in 1975-79. It basically shows how deeply depressed domestic demand was from both the investment and the consumption sides. In addition to this, the continuously high rate of private savings which used to be channelled into industrial investment became utilized as a most important financial source for the government debt without causing an inflationary expansion of money and credit.

(3) A longer downswing 1979-83.

The second oil shock, which was initiated by the Iranian Revolution, pushed up the oil price to $31 a barrel in May 1980 from $12.87 at the beginning of 1979. This increase in oil price by 2.4 times is estimated to have directly reduced the Japanese GNP by 3.3%. Japanese balance of trade turned again into a huge deficit, amounting to $18.4 billion in two years 1979-80.

A wide revaluation of yen from 293 yen a dollar to 195 yen between the end of 1976 and the end of 1978 began to curb Japanese exports. Then, the depressed foreign market forced a reduction in Japanese exports by 8.75% from $152 billion in 1981 to $138 billion in 1982. Japanese exports remained low also in 1983 below the 1981 level.

Japanese economic policy then shifted away from positive Keynesianism toward austerity policy from 1981, following Thatcherism and similar policy tide in other advanced countries.

Therefore, two major factors which supported the previous recovery, namely the expansion of both exports and state expenditure, faded away. Thus, a basic tendency to great depression reappeared and the Japanese aggregate business indicator continuously drifted downwards for three years after March 1980. The rate of unemployment touched 2.7% in January 1983. Real wages in manufacturing declined by 1.5% in 1980, and hardly rose until 1983. Japanese domestic demand and investment were thus stagnant. These depressed conditions, together with tightened fiscal and monetary policies, explain why the Japanese economy 'absorbed' the second oil shock without causing a vicious inflation.

(4) The recovery following Reaganomics 1983-85.

The Japanese economy began to recover from summer 1983, following the Reagan recovery in the USA. The annual economic growth rate came back to 5.1% in 1984, and remained 4.7% in 1985. This recovery was obviously export-oriented. Japanese exports expanded rapidly from $138.8 billion in 1982 to $175.6 billion in 1985. The Japanese trade surplus also increased from $6.9 billion to $46.1 billion in the same period, and surpassed that of Germany in 1983. Japan's export dependency reached 13.5% in 1984.

The strong expansion of Japanese exports was realized not just by quantitative recovery and expansion of the US and other foreign markets, but also by the continuous further intensification of Japanese industrial competitive power by generalization of ME automation system with stagnant real wages. In addition, the appreciation of dollar from 203 yen a dollar at the end of 1980 to 251 yen a dollar at the end of 1984 by 23.6% clearly facilitated Japanese exports to the US market. The high exchange rate of dollar in spite of the increased US trade deficit was a result of extensive inflow of monetary capital to earn the high rate of interest which was caused by the crowding-out effect in the process of the Reagan recovery. As a substantial portion of such international monetary investment in the USA was a transfer of Japanese trade surplus, there was a vicious circle among increasing trade imbalance between the USA and Japan, and speculative international monetary investment.

(5) Depression by the soaring yen 1985-86.

The appreciation of the dollar against the yen was fragile, as it was contrary to the trend of trade balance and maintained by speculative monetary investment. Therefore, it fell down sharply after the G5 meeting (of financial ministers and presidents of central banks of five major capitalist countries) in New York in September 1985. Conversely, the yen soared from the 240 yen to the dollar to the 120 yen level toward the beginning of 1988.

As the Japanese recovery from 1983 fully depended on the expansion of export, especially to the US market, the rapid appreciation of yen gave a serious shock to the Japanese economy. For example, in order to sell the same cassette recorder at the same $100 in the US market, the Japanese supplier had to cut his/her yen export price from 24000 yen to 12000 yen. Profits of business firms, especially in manufacturing fell sharply. Among medium and small firms engaging in export related business and manufacturing, spread wide operational cuts, temporary or permanent closures, and bankruptcies. The unemployment rate again increased to 2.8% (1.8 million) in 1987.

Although Japanese exports still increased in terms of dollar, they sharply fell in terms of yen by 15.9% in 1986 from those in the previous year. The Japanese economic growth rate also fell to 2.5% in 1986.

(6) Recovery led by bubbles and domestic market 1987-90.

Despite the depression in real economy still in process, the Japanese stock exchange market began to rise in 1986 along with the upward motion on the New York stock market. In 1986, the weighted average of 225 stocks in Tokyo Stock Exchange (Nikkei Dow) rose from 13137 yen to 18701 yen, i.e. by 42%. The index rose further to 26646 yen by October 1987.

Following the US reduction of the Federal Reserve Bank rate, the Bank of Japan reduced its discount rate from 5.00% at the end of 1985 to 3.00% in November in 1986, and further to 2.50% in February 1987, in order to reactivate domestic demand and to mitigate both depression and trade friction with the USA. Many Japanese big firms had improved their financial position by paying off debt to banks, and formed idle money capital to be used for speculative Zaitech (financial techniques), as the size of their real investment was stagnant and remained relatively small with new ME technologies. ME information technologies facilitated banks and other financial institutions to mobilize various idle funds and thus increased liquidity of the economy. The appreciation of yen tended to attract speculative monetary capital from abroad. All these circumstances worked together to promote the rise in stock prices in Japan.

Along with this, the prices of land especially in the metropolitan area also began to rise, and more than doubled in two years from the beginning of 1986. Increased demand for office space, houses in the metropolitan area, in the process of centralization of domestic business firms and internationalization of the Japanese economy, expanded effective demand of real estate in the area and tended to generate more and more of speculative transactions.

Gains from such upward motion in prices of stock and real estate began to reactivate domestic demand. Under the pressure of both depression and the US demand to expand the Japanese domestic market so as to mitigate trade imbalances, the Japanese government implemented a large-scaled urgent supplementary budget of 6 trillion yen (about $40 billion) in the Spring of 1987, turning away from the previous tight policy. This accelerated the recovery of domestic demand. Under the pressure of trade frictions and the soaring yen, Japanese manufacturing firms were also striving hard again to regenerate the domestic demand for their products, often by means of easier conditions on consumer credit.

Thus the recovery from Spring 1987 clearly depended on the reactivated domestic market for the first time in the current great depression. Japan's rate of export dependence decreased from 13.5% in 1984 to 9.7% in 1987, below the level in the period of high economic growth.

The recovery was initiated by financial speculative bubble, and had unstable correlation with financial boom. Already on 20 October 1987, a panic occurred in the Tokyo Stock Exchange: following the crash in new York on the previous day, the Nikkei Dow crashed by 14.9%, the highest ever fall in a single day. Although this crash gave a shock and created worries about the future in Japanese business circles until the beginning of 1988, the recovery and expansion of real economy was not much affected. Led by the expansion of domestic consumer demand, investment in plant and equipment in the period 1989-90 was also reactivated after many years of stagnation in almost all business areas. Very cheap money was available by means of equity finance to promote such real investment, and was mobilized together with idle money accumulated within big corporations.

The financial bubble was again swelled much more than the expansion of the real economy from Spring 1988, and the Nikkei Dow reached its historic high 39155 yen at the end of 1989. The financial sector seemed most prosperous and enjoying relatively independent growth far beyond the pace of expansion of real economy.

(7) Complex depression 1991-93.

The recovery phase from spring 1987 lasted relatively long, seemed almost full-scaled, but actually began to deteriorate at its last stage in

1990 by a series of factors. As the discount rate of the Bank of Japan was raised again from 2.5% in May 1989 gradually to 4.25% in December 1989, and further to 6.00% in August 1990, the bubble in the Tokyo Stock Exchange collapsed: the Nikkei Dow fell below 20000 yen by 49% by October 1990. More than 270 trillion yen was lost in Japanese total stock prices. Labor shortage was being felt generally after a long process of expansion in the real economy. Then, the Gulf War from August 1990 and fear of a third oil shock generated serious worry. The world economy and the US economy in particular were again turning into a depression from Autumn 1990.

Since the previous phase of economic recovery was much driven by a financial bubble and soaring prices of real estate, the collapse of bubble could not but hit badly the Japanese economy. The Japanese aggregate business indicator peaked out in the first quarter of 1991. A vicious circle was formed between the collapse of bubbles of stock prices and of real estate, and the worsened business activity. Stock prices continued to falter downward. The Nikkei Dow fell to 14309 yen (the level of 36.5% of its peak) in August 1992 and did not come back to 20000 yen until April 1993.

As the prices of stock and real estate fell, mortgages deteriorated and became hard to liquidate. Thus, a credit crunch spread among Japanese banks and other financial institutions. Medium and small firms which tend to depend much on bank loan for their business, were in serious trouble because of the credit crunch. The number of closures and bankruptcies among them has been at a high level throughout.

Investment in plant and equipment decreased below the level of the previous year. Japanese firms were forced to restructure their costs and to reduce redundant employees. Nissan decided to close one of its main factory at Zama. Similar severe restructuring is being pursued by most of Japanese firms. Both financial and real economy in Japan have thus been experiencing a complex depression.

We have still to see whether the recent slight recovery in the Tokyo Stock Exchange actually signals a recovery in Japanese real economy following the US economy. New appreciation of yen from the beginning of 1993 helps recovery in stock prices by attracting monetary investment from abroad, but badly affects exporting industries.

3 The Distortions

The Japanese economy is sometimes idealized as exceptionally crisis-free, stable, and harmonious. In reality it is not. Far from being stable, it has experienced wild business fluctuations since 1973 unlike in the previous period of high economic growth. Even in the recovery phases, the Japanese economy could not grow as fast as before, and contained many industries in depression and firms to be restructured. Recovery was inevitably followed by severe depressions, as we have seen. In 20 years from 1973 the years in depression clearly prevail, repeatedly enforcing 'rationalization' and restructuring of the economy. As a whole, the Japanese economy has been in a continuous great depression, to be seen as a persistent crisis in the original meaning of the word <u>crisis</u>.

(1) <u>The factors for persistent depressive crisis</u>.

It is not so simple, however, to identify the basic factors for such a persistent crisis in the Japanese economy.

The overaccumulation of capital in relation to both laboring population and inelasticity of supply of primary products was effectively resolved by the pressure of depressions and 'rationalization' with new technologies. Yet a pool of the industrial reserve army was not restored in agriculture in this period in contrast to the prewar depressions. During 1970 and 1987, Japanese working population in primary industry rather continued to decrease by 4 million (from 17.4% to 8.3%), while that in tertiary industry increased over 10 million (from 47.4% to 58.5%). It is noteworthy that the working population in secondary industry also increased by 1.7 million in this period in Japan, though its proportion declined a little from 35.2% to 33.3%. Together with reduction of growth rate of population, this basically restricts the ceiling for Japanese capital accumulation much lower than in the period of high economic growth.

Actually labor shortage tended to reappear easily in the phases of recovery and expansion. Similarly, relative shortage of natural resources remained as a latent restriction for the world and Japanese capitalist accumulation as was bitterly felt in the second oil crisis. The unstable speculative bubble in price of land is, in a sense, rooted in a similar restriction.

On top of this, there has been excessive capital in the form of excessive productive power in relation to depressive markets. In most years the markets for consumer goods have been stagnant, basically so long as real wages has been stagnant. Investment demand could not much recover, as the necessary scale of investment on ME equipments became lighter and smaller, and also as idle capacity was hard to solve. The rate of capacity utilization in Japanese manufacturing went below 80% in 1975 and frequently came down to 85% level in 1982-83, and 1986, (while the average level in 1968 was taken as 100%(5)). If the highest level in the same data 118 in December 1969 is taken as 100% utilization of capacity, then the numbers above should be reduced by 15%, and the rate rarely touched 90% but for the last years in the recovery phase from 1987. Especially most of industries producing raw materials such as steel, chemical materials, and cement were called depressive sectors, and had a hard time to restructure. Excessive productive power in Japanese companies is generally related not just to physical capacity but also to regular employees. Usually reduction of regular employees is done only gradually by waiting retirement by age limitation or by finding their new work places elsewhere. Anyway, the persistent excessive capital in the form of excessive productive ability tended to oppress the recovery of profit rate of Japanese firms.

Unlike the behavior of big businesses in the previous great depression in 1930s, monopolistic pricing by restricting competition was not conspicuous as a means of mitigating the pressure of excessive productive capacity in the current great depression. Together with the additional effect of ME automation systems, the pressure of excessive capacity rather sharpened competition in the supply of more sophisticated new models of cars and electric appliances with moderate prices. The competitive depressive pressure on the recovery of profit rate reminds us of the process of great depression just a century ago.

The continuing situation of depression in the world economy surely makes an unfavorable background for a stained recovery for the Japanese economy. The key export industries of Japan have long been suffering from this depression. The tendency to heavy appreciation of the yen severely added to their difficulties in restoring profit rates. Speculative international movements of money capital have often produced wild fluctuations in the exchange rate, and led the stock market to swell and crash.

(2) Seeming strength of Japanese economy.

Despite of a basic tendency to a continuous depressive crisis due to these factors, the Japanese economy still seems quite strong in certain aspects. In terms of dollar, its GDP seems rapidly growing and surpassed that of USA per capita in 1987. It is curious to see that even quite stagnant Japanese real wages appear to have more than trebled in international comparison as the yen appreciated from 360 yen a dollar in 1971 to 110 yen a dollar now.

Against conventional theories of international trade, this wide appreciation of the yen did not stop the increase in the Japanese trade surplus. The reversed J curve effect, which assumes an initial increase of the dollar amount of Japanese exports kept at a similar volume by inertia, before this amount is reduced as a result of the appreciation of yen, would not suffice to explain such a long term phenomenon. The difficulty of Japanese export industries due to appreciation of yen was repeatedly overcome by attempts to reduce their costs of production by both ME automation systems and harder work. Loyal attitude of Japanese workers and cooperation of subsidiary smaller firms were fully utilized for this purpose. Appreciation of the yen made costs of imported energy, raw materials, and intermediate products cheaper. This simultaneously reduced total yen value of imports and thus substantially added to the Japanese trade surplus. The increased trade surplus tended to increase the appreciation of the yen further, leading to a vicious circle.

In such a process, Japan became the biggest creditor country largely shifting trade surplus to monetary investment to US securities, while the USA turned to the biggest debtor country in the world. Actually to certain extent, the seeming strength of Japanese economy is coupled with over-spending of the US economy.

Competitive depression, as well as the pressure of appreciation of yen on export industries, promoted ME 'rationalization' in the form of factory automation (FA) and office automation (OA) upon the ground of corporative attitude of workers. It is estimated that in 1986 59.5%% of robots in the world are working in Japan(6). Japanese big business firms in general appear really to have managed to restructure and incorporate top level of technologies, and improved their international competitive power and financial positions.

The relatively low rate of unemployment in official statistics also impresses stability of the Japanese economy in intentional comparison.

These aspects of seeming strength in the Japanese economy are not totally false and empty appearance. However, it is very one-sided to see and emphasize only such aspects. We have to see also underlying distortions and rigidities.

(3) Underlying problems.

Restructuring of Japanese capitalism through the current great depression clearly restrengthened socio-economic unevenness in various aspects.

Above all, there has been a wide disparity or unevenness between much increased productivity and stagnant real wages unlike in the previous period of high economic growth. For instance, in Japanese manufacturing labor productivity increased to become 2.17 times greater in 1975-85, almost as fast as in the period of high economic growth, whereas the real wages increased only by 5.9% in the same 10 years. Even in the phase of expansion in 1986-90, the disparity was wide between the 33.9% increase in labor productivity and the 8.7% increase in real wages. This aspect should not be neglected when Japan is taken as an advanced model of pos-Fordism.

The loyal and cooperative attitude of Japanese workers for increase of productivity mostly by means of ME technologies has not been rewarding. The social position of trade unions was weakened, as various types of irregular unskilled part-timers, tentative employees, detached workers were increased in the process of spreading automation systems both in factories and in offices. The rate of unionization declined from 34.8% in 1971 to 24.5% in 1991. As house wives were mobilized more and more in the labor market, a life style to earn wages for a family by two persons became normal and restricted a rise in real wages by spreading the value of lavor-power over plural members of a family(7). A tendency for Japanese firms to multinationalize and to use more of cheaper workers in foreign countries has been promoted by the appreciation of the yen, and worked against the increase in Japanese real wages. Increased inflow of cheaper and often illegal workers from Asian countries also tends to work similarly.

At the same time, with ME information technologies, automation systems in factories and offices actually 'imposes on the worker an increased expenditure of labor within a time which remains constant, a heightened tension of labor-power, and a closer filling-up of the pores of the working day, i.e. a condensation of labor, to a degree which can only be attained within the limits of the shortened working day'(8). Despite of a much heightened tension of work, the notoriously long working day in Japan has not been shortened. Even in official statistics, it is about 30% longer in a year than the length of working day of France and Germany. As a result, the number of karoshi (death by over-working) and workers in chronic exhaustion syndrome have been increasing in Japan. It is estimated that in a year over 23 thousand Japanese persons of working age, i.e. between 30 and 60 years old, suddenly die in their daily life. The rate of birth for a whole life of a Japanese woman has recently declined to 1.53, as more of Japanese women participate to such busy work places. Ironically, the very success of Japanese capitalist firms to organize more and more people as hard-working employees is destructing its social foundation in reproduction of healthy labor-power even at the same scale.

The rate of exploitation must have risen so long as labor productivity has increased rapidly on the basis of workers' cooperation with stagnant real wages. Actually, the financial position of Japanese firms, especially that of big businesses, has been much improved. Most of Japanese big firms paid off their heavy debt rather in the process of the great depression and became net creditors to gain by financial investment. However, in macro-economic data, the profit share in Japanese manufacturing has not been much improved. It recovered but a little from 15.2% in 1975 to 17.7% in 1985. The big gap between increased labor productivity and stagnant real wages has been used not to raise the profit share, but to make the prices of exports more competitive despite of wide appreciation of the yen. So far as it has enabled to increase the Japanese trade surplus, it has further promoted appreciation of the yen. Together with the effect of the appreciated yen, the gap between productivity and real wages gave Japanese big firms financial flexibility to absorb rising costs of oil, other resources, land and real estate.

With the appreciated yen, Japan now appears as a great economic country. Japanese economic power and wealth tend to be concentrated into capitalist firms, which can easily extend foreign investment and multinational activities. In the meanwhile, it is curious to see how Japanese wages has become internationally so expensive in terms of dollar, thus further promoting foreign investment, despite of its real stagnancy in terms of yen. The working of reactivated competitive market economy in post-Fordist Japan, has therefore resulted in uneven redistribution of economic wealth and power between capitalist firms and workers.

It simultaneously reversed the tendency to reduce the differentials in various types of wages, and re-expanded those being segmented by such categories as sexes, educational background, regular or irregular positions, job status in a firm, and so on(9). Allocation of wealth in the forms of various stock, such as land, real estate, securities and share capital has also become much uneven. Regional economic conditions and wealthiness have similarly been broadly differentiated.

In the same process of current great depression, Japanese state budget fell in a deep crisis. The total balance of government debt increased enormously from 9.4 trillion yen in 1973 to 208.8 trillion yen in 1991. Its ratio against GNP is 50.2% in 1991, and is at the second height following the US 67.5% among major capitalist countries. This budget crisis tends to shift its burden to the shoulder of weaker people by cutting down state expenditure for welfare and public education, as well as by introduction of consumer tax. It also restrict state policies to mitigate the growing unevenness in various aspects in the Japanese economy.

Recent social demand for new political parties outside of the government party (LDP) reflects, in my view, not just popular indignation against the continuous and structured corruption of LDP, but also unsatisfaction with such growing unevenness in the economic life. It is still hard to tell if Japanese working people can find a proper political expression in the direction to solve their unsatisfaction and worry for the future. Thus a necessity to change the political tide for a way to economic democracy, an egalitarian economic order for the people by the people truly remains as a problem to be solved for 21st century even in the alleged ideal Japanese economy.

Notes:

(1) As for more in detail of the principles of regular business cycles and crises, see Makoto Itoh, The Basic Theories of Capitalism, London: Macmillan, 1988, Chapter 9.
(2) Also see Makoto Itoh, The World Economic Crisis and Japanese Capitalism, London: Macmillan, 1990.
(3) For example the Secretary of the US Ministry of War, Mr Royal clearly stated this in his speech in January 1948.
(4) A pure model of Fordist regime of accumulation assumes parallel increase in labor productivity and real wages in the form of social contract or implicit social agreement between capital and labor, according to the notion in the French regulation school which follows M.Aglitta's work, A Theory of Capitalist Regulation: The US Experience, translated by

D.Fernbach, London: NLB, 1979.
(5) Nikkei NEEDS, Industrial Statistics Monthly, 1968-1992.
(6) OECD, Government Policies and the Diffusion of Microelectronics, Paris, 1989.
(7) K.Marx, Capital, vol.I, translated by B.Fowkes, Harmondsworth: Penguin Books, 1976. p.518.
(8) K.Marx, op.cit., p.534.
(9) M.Itoh, The World Economic Crisis and Japanese Capitalism, p.197.