Recession in Japan—Part I

Deep-rooted problems



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Although economic downturns are universal phenomena in recent years, Japan has been suffering from a severe economic recession for more than ten years. The Japanese government has been trying to stimulate its economy by installing some new economic policies and making interest rate zero or nearly zero, but it didn't seem work out. The recession affected society both on the public and individual levels, not only not having much good news, but also unemployment, bankruptcies, and crime rates have been increasing. Many small businesses have been struggling to survive and ordinary people have been challenged to improve their life with thrift and modesty, as opposed to an affluent life during the bubble economy in 1980s.

Twenty years ago, Japanese people used to be proud of themselves, believing that Japan was the second largest economy in the world. Today, China got far ahead of Japan in its economic power. According to the *CIA World Factbook*, Japan is the "second most technologically-powerful economy in the world after the US and third-largest economy after the US and China." This can be explained by the markets' tendency in the United States. Products made in China are everywhere. The majority of merchandise that can be seen in California, such as clothing, small household goods, and disposable products were almost all made in China, while imported Japanese tech-products such as cars, TV sets, and computers are increasingly dominant in the United States. However, there is no guarantee that Japan will maintain the rank of "second most technologically-powerful economy in the world," and their long-lasting pride in being the "second largest economy in the world" has already been lost.

In this paper, looking at some of deep-rooted problems in Japan, I will discuss the latest economic situation from statistical point of view, some causes of the recession, and how the recession has affected Japanese society.

Generally, economic conditions are often measured by a country's annual gross domestic product (GDP), its unemployment rate, sales, indexes of stock markets, etc. As the GDP figure shows, Japanese GDP—the overall real annual growth rate keeps decreasing. For example, it was 10% in the 1960s, 5% in the 1970s, 4% in the 1980s, and 1.7%, in the 1990s. After 2000, it slightly recovered to 2.7% in 2003 (CIA). The unemployment rate also increased from 2.1 percent in 1991 to 4.7 percent at the end of 2000, and the Nikkei stock market dramatically fell by more than 60 percent—from 40,000 in 1989 to 15,000 by 1992, which is a very significant fall (Powell).

The economic condition in Japan seems to be slightly recovering this year according to some recent news. The last updated real growth rate is 2.7% (CIA) and the seasonally adjusted unemployment rate is 4.5 % (Statistics Bureau) which showed that there is a little hope for the Japanese people compared to a few years ago. This improvement is due to an increase in exports to China and other Asian nations, as well as consumption, business profits, and investment upward tendencies, but economists are concerned that the recovery is still slowing (Boston).

Since these numbers are very fragile and changeable within a short period, it is too easy to say that Japanese economy has been improving. In fact, the majority of economists were pessimistic about recent economic indexes. Japanese economic condition is still in the "intensive care unit" and needs government care, because the majority of companies has not finished paying off their debts, according to Richard C. Koo, a major economist at the Nomura Research Institute, (Asahi).

Economic specialists often analyze causes of Japanese economic problems from financial aspects along with more business sectors. For example, during the late 80s, Japanese housing-

loan companies created huge loans over $900 billion which borrowers were unable to pay back when land prices crashed in Japan (Overview).

But, there are some simple reasons even amateurs can think of to explain why Japan has been experiencing such a long-term recession. One of the most fundamental problems is that people in Japan tend to save money more than spending because there is less hope for their future financially (Flath p.103). Japan has currently one of the highest saving rates in the world. (Flath p.1) In the law of supply and demand, if demand for goods decreases, prices fall; if there is no demand for goods, especially durable goods, the industries and businesses have to cut labor costs which create unemployment, and eventually this leads to a recession or depression. It seems like the Japanese consumers' attitude is largely responsible for creating this vicious cycle.

Japan's ill economy has challenged some traditional corporate systems, especially in their employment practices. For example, most Japanese companies traditionally guarantee their employees lifetime employment and a seniority-based salary, but these benefits are eroding these days. (Flath p.1) This means that employees are always facing the risk of losing their jobs when their companies fall into a financial crisis. In order to prepare for the worst case scenario, people desperately save money.

Another fatal reason is that Japan has been becoming an aging society. Japan is a country with one of the highest longevity rates in the world. The average life expectancy is now 81 years, with about 77.7 for males and 84.5 for females. This is a much longer life span compared to the United States where the average life expectancy is 77.4 years, with about 74.6 for males and 80.3 for females. As for the age structure, 19 % of people are over 65 years old, and the median age is 42 years old in Japan (CIA 2004 est.). In addition, the Japanese Statistics Bureau shows that people aged 65 or over were 19.5 % of the population in November, 2004, and 19.8 % in March,

2005 (S. Bureau). From this we can say that Japan will quickly become a nation of old people. This factor also encourages saving more money than spending as people can not rely on a pension system in Japan. The aging population affects not only the individuals, but also affects the society as a whole. People in their productive ages will have a bigger burden supporting the aged people, and the average age of the labor force will also rise. Japan has been facing this big challenge not just for superficial economic problems.

There are some significant elements that have changed Japanese society in recent years. The prolonged economic recession created new problems in Japan. Where it used to be a wealthy country, Japan now has hidden poverty which particularly affects women and children in many ways. One of the significant changes is an increasing poverty rate which affects women, especially single mothers, older women, and immigrants. In a recent Asia Times Online article, Sean Curtin sensationally reported that a woman and her three-year-old son were found starved to death. Based on his research using a new Japanese government survey, the number of fatherless families reached 1.22 million in 2003 in a total population of 128 million; this was a 28% increase compared to five years earlier. Surprisingly, the majority of children in these families live below the poverty line. This is partly because the average annual income of these mother-headed families had decreased, from about 2.52 million yen ($23,850) in 2001 to 2.12 million yen ($20, 065) in 2002. Single mothers like in this case are affected most in Japan because of the government's inability to reform "welfare programs, tax credits for poor families, free childcare for poor mothers" (Curtin). "In 1998, as part of a governmental economic restructuring policy, the upper limit of the annual income permitted to get the benefit of the child-rearing allowance was lowered from 4.07 million yen to 3 million yen and as a result, about 74,000 mothers lost the benefit" (NGO).

Women in Japan, especially older women, are affected by economic downturns very badly also. Recently, Meryl Streep, who is an actress and feminist activist, talked about women in Japan, Britain, and some parts of Latin America, who are treated as "second-class" citizens. As for Japan, it may be true in many ways. Since the lifetime employment and seniority-based salary system collapsed, many women, especially those who are the most vulnerable to losing their jobs because of their age, are affected the most. Once they have lost their jobs due to their companies' financial crises, the employment pension system in Japan does not benefit them satisfactorily. The NGO reported that "women receive only half the amount of the employee pension of men, because the amount is based on wages and term of payment of premium. Women's wages are very low, and the systems of wages, taxes, pensions and social security are all based on a family that has a husband as a breadwinner and a wife as a dependent. If a woman gets divorced, she has to face poverty" (NGO). On the other hand, in order to survive, many companies began to hire women as part-time workers or temporary workers with low-paid jobs and longer hours by firing middle-aged men who used to be paid higher salaries than the women, which in turn affected the men's wives. (NGO)

Another element which increased the poverty rate is a parallel rise in the number of immigrants. Japan used to be a homogenous country, but now is becoming a more multiracial society since the 1990s. Although 99% of the population is still Japanese, there are a number of immigrants in Japan, such as Korean 511,262, Chinese 244,241, Brazilian 182,232, Filipino 89,851, other 237,914 (CIA 2004). These immigrants are not exceptional, especially the Brazilians, who came to Japan to fill labor shortages in the 1990s, and are now in ghettos of poverty in Japan's second largest city, Osaka. During the period, Japan tried to improve its immigration laws by accepting many immigrants from Brazil and other countries. There are

many construction sites in Osaka which needed cheap laborers when the economy was booming. Those people do not have any jobs currently because of this economy (BBC). Some immigrants who came from South America with families as factory workers in electrical products and car manufacturing during the same period also became the victims of the economic recession (NGO).

After World War II, Japanese people worked very hard to catch up to the United States who promoted industry to get Japan out from the devastating aftermath of the war. Since then Japan continued to be influenced by the U.S in many ways. Regardless of whether it was a mistake or not, the immigration laws that the government of Japan tried to improve by accepting immigrants in 1990s was one of the good examples to show how much Japan wants to become like America. It is obvious that the Japanese government ended up having larger numbers of unemployment because of the immigration policy. Instead of increasing the population in such a limited land, Japan may have to try some other things to solve the economic problems, such as a reform of the consumer-tax system and other things that would encourage consumers to spend more money.

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