

# Japan's new 'stimulus package' solves nothing

by Our Special Correspondent

"No one ultimately knows whether the new economic package put forward by the Hashimoto government will get the Japanese economy moving," commented one top Japanese official. "The crisis is continuing on the slope downward with no end in sight. Only those who are wishful thinkers believe there will be a turnaround." This gloomy assessment of the latest public works stimulus and tax-cut package announced by the Hashimoto government on April 24, is buttressed by the latest statistics coming out of the Japanese government.

The Economic Planning Agency and the Ministry of Finance announced in April that Japanese consumer confidence dropped for the 12th month in a row, and that for the last year, consumer spending is down by 12%. Banks' stocks continue to weaken, while the yen has depreciated to 132 to the dollar. The Nikkei is hovering around 15,000 to 16,000 points, and it is being artificially propped up by the Bank of Japan's printing of yen, at a rate of increase of 51% compared to last year.

Although U.S. Treasury Secretary Robert Rubin gave guarded praise to the Hashimoto government's package, Treasury officials and other U.S. government agencies are pressing Japan to do still more. Japanese officials have privately told their U.S. counterparts that this heavy pressure is starting to undermine Japanese confidence in the U.S.-Japanese relationship. Nonetheless, despite the pressure, the Japanese are sending top government and Liberal Democratic Party officials to Washington for further discussions about the economic crisis.

Leading the trek to Washington is Taku Yamasaki, the chairman of the LDP's Policy Research Council, who arrived on April 28 for meetings with Rubin, Federal Reserve Board Chairman Alan Greenspan, and Gene Sperling, head of the National Economic Council. Following Yamasaki will be Koji Omi, the Minister of Economic Planning, and another LDP policymaker, Koichi Kato. Kato is scheduled to attend a conference sponsored by the Economic Strategy Institute, entitled "Whither Globalism: A World in Crisis?" In addition, the leading member of the largest opposition party, the Democratic Party of Japan, Naoto Dan, is scheduled to arrive in Washington in early May. Dan is scheduled to meet with U.S. Assistant Secretary of State for East Asian Affairs Stanley Roth.

According to well-informed U.S. sources, Clinton administration officials are desperately trying to get Japan to adopt

an even "bolder" set of actions, including permanent tax cuts and further deregulation of the financial sector. Clinton administration officials believe that the renewed deregulation push will provide maneuvering room for Japan to fend off a potential "speculative attack" on the yen or bank stocks. The reasoning is based on the conception that Japan, by bringing about real transparency in their banking system and allowing certain banks to fail, may avoid a hedge-fund attack. Because the hedge funds operate on shorting bank stocks on the basis of their "hidden losses," so the thinking goes, once the losses are removed from the books, the hedge funds cannot attack.

However, this decision to close down certain banks is an explosive political issue domestically. All of the leading Japanese banks represent different political factions and combinations within the LDP. If one bank were to be allowed to go under, then that faction or factions would be weakened. One of the reasons that the government continues to print money to keep the banks liquid, is to avoid a major political explosion, so that no one in a leadership position ultimately will have to take responsibility for sinking one or two banks. Historically, the only institution which has been responsible for making this kind of decision, is the Ministry of Finance. With the ministry in near paralysis because of the ongoing scandal within it, the decision-making process has shifted to the office of the Prime Minister, and Ryutaro Hashimoto has been reluctant to take those steps. That is one of the critical reasons that former Prime Minister Yasuhiro Nakasone and his factional allies have called for Hashimoto to step down.

## Confusing signals

For the Japanese, the confusion gets even more compounded, when the "globalizers" make even more strident demands on the Japanese to "let the banks fail," and the United States seemingly endorses this view. On top of that, the push for further deregulation infuriates the Japanese, because it demands a "cultural" shift in the way Japan thinks about its financial system. The Japanese do not have the "Anglo-Saxon" ideology about so-called "free markets," and prefer their way of doing banking and lending based on a personal relationship. What the Japanese conclude, is that the United States is the key force behind globalization, and not the Anglo-Dutch-centered financial oligarchy.

As a result of this process, Japanese officials are in Washington to get briefed and to seek clarification about what the United States intends to do. Unfortunately, the issue of the New Bretton Woods system is apparently not on the agenda, and so, Japanese officials who are open to this idea, will not receive any clear signal from the United States. Until that policy initiative is put on the table, Japanese confusion will continue. Hopefully, following President Clinton's trip to China, the Japanese situation will be given more careful attention, and heed paid to Japanese sensibilities. Otherwise, the United States might find itself losing a valuable ally.