Tokyo's Nikkei index and the bubble economy

by Chris White

The Tokyo stock market's Nikkei index has gone into another round of precipitous decline. Now at or below the 16,000 level, the index is back to where it was in 1985 and 1986. The collapse was reportedly the subject of fearful behind-the-scenes discussion at the latest meeting of the Bank for International Settlements, the central bankers' central bank, in Basel, Switzerland.

Might not the mounting losses of Japan's banks, it was asked, be the occasion for the liquidation of bank assets outside of Japan? Specifically, might not Japanese banks, increasingly desperate to cover losses, begin to sell off real estate assets in the United States and Britain? Such a development, by even one bank, it was thought, might be sufficient to trigger a cataclysm for the Anglo-American world, especially given the corpses of the speculative real estate companies of the 1980s piling up outside the doors of the Bronfmans, the Reichmanns, and the banks that financed their bubble schemes.

Another variant of this story comes through, courtesy of Cable News Network's "Moneyline" pundits and others, pretty much every day the Nikkei index goes through another downward lurch. This one says that the recoveries in the United States and Britain might well be jeopardized by recession in Japan and Germany. Therefore, Japan ought to do various things for the benefit of everbody: lower interest rates, cut income taxes, increase public spending, and of course, open up its markets to foreign investors. The U.S. Treasury has added its voice to this chorus.

There is no recession in Japan

This approach ought really to raise a few questions. What recovery? And if the "recovery" doesn't exist, why should the "recession," which the pundits insist on blabbing about from 6,000 miles away, exist either?

Let's start with that, because it helps clarify certain things, and to get some idea of the silliness to which the U.S. now regularly descends to defend a policy which is incompetent, insane, and criminal.

There isn't any recession in Japan. In fact, the touted Japanese recession has as much existence as the touted U.S. recovery. In certain areas of Japan's financial system and economy, there is a shakeout going on. The shakeout is part of a policy of ending what the Japanese call the bubble economy, and redirecting resources back into something more like what they call the "high growth" economy, which was characteristic between 1957 and 1973.

This policy has been in effect since the end of 1989. It is not a one-shot type of approach—pop the bubble and let's see where the chips fall—but a commitment which has been thought out, under the same kind of discussion process which all Japanese policy changes are subjected to, to build agreement among all institutions and layers affected on behalf of the policy adopted. And the policy adopted was ending the bubble economy.

Unlike the United States, Japan shapes its policy around the economy's investment cycles, with the Ministry of International Trade and Industry (MITI) taking the lead in organizing a national discussion process to formulate what is called a "vision," or "perspective," for the coming 10-year period. A commission of government, business, and university leaders organizes the process, which extends outward to involve all sorts of institutions, at all levels, in debate. Once settled, everyone knows what the policy is. Of course, in the real world, things change. Changes are handled by way of the process that has the U.S. "Jap-bashers" all upset: ministerial guidance.

Ending the bubble economy

Ending the bubble economy is at the core of the 10-year perspective which was adopted for the decade beginning

1990. The people who worry that Japan might start liquidating its real estate holdings in the United States, if the Nikkei index collapses much further, would probably be even more upset if they had any idea about what ending the bubble economy might actually mean.

What was the bubble economy? This was what pretty much everyone in the United States, with the exception of this magazine, called the "longest period of sustained economic growth in U.S. history." The bubble economy is the "Reagan recovery," which didn't have any more existence than the one the idiots are talking about now. The bubble economy meant opening up the United States for the return of offshore dollars, in the form of narco-dollars, to loot and asset-strip on the basis of real estate speculation and the growth of debt. Japan was a cash cow for the process, particularly since the so-called Plaza Agreements on the dollar in 1985. Japan could be counted on to recycle its trade surplus into purchases of U.S. government debt, to finance the ever-expanding fiscal deficit, or to buy whatever. Since 1989, Japan's net investment in the United States has all but dried up.

The internal effects of this, as described by people in the Japanese Finance Ministry, resulted not only in the speculative inflation of real estate values, but also in the promotion of a "post-industrial" economy. Internally, the bubble economy is being ended to bring down real estate prices, and to encourage a shift in employment out of financial and other services, and back into technologically progressive manufacturing industries.

So there is a shakeout going on. In hotel and office construction, for example, or in the sales figures of the ostentatiously tasteless Tokyo department stores, where you can buy diamond-studded, gold-plated portable telephones. Real estate prices are coming down. This is key to the implementation of a $6 trillion domestic infrastructure improvement plan for the decade. Lower real estate prices are necessary to decentralize economic and other functions out of the Tokyo metropolitan area. The bubble economy is being brought to an end as part of the process of preparing a shift into a form of economic organization which will be increasingly characterized by the use of hydrogen as a fuel, and by the technologies associated with electro-chemistry.

Where does the insanity and silliness of the U.S. come in? In such forums as the Structural Impediment Initiative talks. This is the bilateral committee set up to examine the structural causes for trade impediments between the U.S. and Japan. Here, the Japanese have been recommending that the U.S. adopt the same approach.

A key issue: the labor force

A good place to start is with the question of unemployment. Here's the U.S., with a mounting budget deficit, and about 18% of its work force unemployed, if all the Labor Department's different categories are added up. In these talks, Japanese government representatives say, in their way: "If you Americans were serious, you would stop making your labor force the butt of all your economic problems. Every time something goes wrong, you lay off your workers. Why don't you instead adopt the Japanese lifetime employment system, and treat your workers as the most important assets your companies have?" The answer from the American negotiators won't be such a surprise: "That would constitute unwarranted government interference in the workings of a free market."

That's the same U.S. government which insists that the Japanese government use its influence with auto companies and Japanese consumers to help U.S. auto companies increase their sales in Japan. The U.S. government is insisting that Japan drop the lifetime employment system as among the obstacles to the spread of a free market in Japan. "Lifetime employment" is what it sounds like: An employer who takes the responsibility to hire a worker, will also take the responsibility to keep that worker employed, until his or her retirement. It doesn't cover all workers, but a core of the labor force. So we find, in a country which the Anglo-American media describe as in a recession, 125 job openings existing for every 100 people looking for work; while in the "recovery"-bound U.S., there is about 18% unemployment.

Or, the Japanese say, "Your companies are hamstrung by your emphasis on quarterly performance, and stockholders' demands for increasing quarterly dividend payments. Why not change that? Why not cut out nonproductive overhead, and reduce your executives' salaries?" The U.S. reply? You guessed it: "Unwarranted government interference in the free market. You should give your stockholders the same rights we do."

The dividend and stock demands cut to the heart of everything which has gone on around the Dow Jones Index in recent years. The demands are straightforward, even if formulated discreetly: "Get rid of your bubble economy, and put people back to work in productive jobs." And the U.S. side replies: "The problem here is that you settle commercial disputes through administrative means. You need to expand your court system to make possible the settlement of civil disputes in court. You need more lawyers."

Suppose the bubble economy is coming down. What then? Is it worth wondering what happens when the Nikkei hits 15,000 and then 14,000? It was around 10,000, maybe less, before 1982, when the Donald Regan and Walter Wriston took over with their "creative financing" schemes. It seems that the real estate market would follow a similar path if the government's formulae for the financing of home sales is adopted, which it will be. This would push pricing of financial assets back to about 20% of their highs in 1989. That would be the equivalent of a 700-800 level on the Dow Jones, and of U.S. median housing prices back in the range of $30-40,000. Do Japanese banks have to sell off their U.S. assets to bring that about? Probably not. Isn't it going to happen anyway, thanks to Bush's market-friendly, kinder, gentler America?