

Japan Govt Gearing Up for Economic Stimulus Package

August 8 2008

Tokyo, Aug. 8 (Jiji Press)--The Japanese government, which has admitted that the country's longest economic expansion in the postwar period may have been over, is now gearing up for a comprehensive economic stimulus package.

Among measures under consideration by the government and the ruling coalition are cuts in expressway tolls to ease the impact of surging crude oil prices on the transport industry and measures to help the agriculture, forestry and fisheries industry save energy, informed sources said.

The government hopes to finance the envisioned measures by funds earmarked under its budget for fiscal 2008, which ends in March 2009. If the budget proves insufficient, the government will have to tap into a 350-billion-yen reserve fund set aside for unexpected events in the budget for the current year or compile an extra budget.

New Komeito, the junior ruling coalition partner of the Liberal Democratic Party, has proposed tax cuts worth one trillion yen for low-income earners.

The government and the ruling parties are expected to compile the economic stimulus package early next week.

Possible End to Economic Expansion

The need for such measures gained urgency after the government said Thursday in the monthly economic report for August that the economy is "weakening recently" amid falling exports and output. It stopped referring to a recovery in its overall economic assessment for the first time since December 2003.

Many economists now believe that the economic expansion, which began in February 2002, appears to have ended late last year or early this year.

Economic and Fiscal Policy Minister Kaoru Yosano, who assumed the post in the Aug. 2 cabinet reshuffle, said at his inaugural press conference that an economic downturn may have started late last year.

Prime Minister Yasuo Fukuda then instructed Yosano to compile economy-boosting measures, pointing to surging materials costs and an economic slump in Japan.

Yosano's press conference surprised reporters due to his deviation from the government's overall economic assessment in July.

Hiroko Ota, Yosano's predecessor, last month downplayed concerns about an economic downturn in Japan, saying the economy is managing to maintain a flat trend. But people close to the prime minister suggested that her view differs from that of the public.

Japan's industrial production figure for June, released on July 30, indicated weakness in production activities, pushing officials at the Cabinet Office closer to the view that the nation's economic expansion has come to a halt.

After Yosano replaced Ota as economic and fiscal policy minister in the cabinet shake-up, the Cabinet Office, which is under the minister's jurisdiction, admitted the possibility that the economic expansion has ended.

Slipping Back before U.S.?

The government has so far maintained that the Japanese economy has been hurt by surging oil prices and a slowdown in the U.S. economy, but that the economy will pick up if exports gain momentum amid a U.S. economic turnaround. The future course of the Japanese economy hinges on the United States, an official of the Cabinet Office predicted.

But the latest economic assessment can be taken to mean that the Japanese economy may have entered a downturn earlier than the U.S. economy, according to some economists.

Yasuo Yamamoto, senior economist at the Mizuho Research Institute, said the economic downturn can be attributed not so much to the U.S. economy as to surging crude oil and other resources prices. It is therefore no wonder that Japan's economy slipped back earlier than the U.S. economy, he said.

Due to a slump in vehicle sales in North America and skyrocketing materials costs, Toyota Motor Corp. logged its first drops in quarterly group profits and sales for April-June since it began disclosing quarterly earnings in 2002.

After Thursday's release of the monthly economic report for August, Yosano said the longest postwar economic expansion helped improve corporate earnings but the labor distribution rate continued to decline and households failed to feel benefits from the expansion.

With the economic report, the need and rationale for an economic stimulus package have now become stronger, he said, indicating his intention to accelerate work to draw up economy-boosting measures as instructed by Fukuda.

Yosano now faces the daunting task of striking a balance between his mantra of fiscal discipline and the need to work out measures that can have a quick impact.

Source: Jiji Press English News Service