

Japan economic stimulus package seen ineffective

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Japanese officials are finalizing details of an emergency economic stimulus package this week, stressing the need to bolster the country by helping citizens cope with high fuel and food prices.

But will it really work?

Economists are skeptical. The driving force behind the plan, they say, smells more like politics than pragmatism.

Announced earlier this month, the government's proposal will include measures to help agricultural and fishing businesses hit hard by soaring fuel costs. It may also seek to slash expressway tolls, expand medical services for the elderly and support small- and mid-sized firms struggling because of rising commodity prices.

Prime Minister Yasuo Fukuda and his Cabinet are expected to formally reveal details Friday, but the latest media reports speculate the package will total 2 trillion to 3 trillion yen (US\$18.35- US\$27.53 billion).

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While the measures will provide some help to those hardest hit, they do not address fundamental issues weighing on the broader Japanese economy, said Kyohei Morita, chief economist at Barclays Capital in Tokyo.

They won't, for example, stem soaring costs themselves or resolve the global credit crisis.

"More so than raising GDP, what the LDP really wants is to raise its approval rating," Morita said of the ruling Liberal Democratic Party ahead of lower house elections next year.

Growth in the world's No. 2 economy has come to a virtual halt against the backdrop of higher energy and materials prices, slowing exports and the global credit crunch. Second-quarter gross domestic product, which contracted at a 2.4 percent annual pace, suggests that the country teeters on the brink of recession.

Meanwhile, inflation is climbing, squeezing household budgets and undercutting business profits. Economists forecast a 2.2 percent jump in July's core consumer price index, which exclude volatile fresh food prices, when figures are released Friday.

Frustration over rising fuel prices has spilled into the streets this summer. Some 20,000 truckers nationwide staged demonstrations on Tuesday and warned they would add surcharges to cover spiraling costs.

Last month, the country's fishermen went on a massive one-day strike, an effort involving 200,000 boats and 400,000 workers.

Approval ratings for Fukuda's Liberal Democratic Party hover in the 30-percent range, pointing to an uphill battle for seats if its image doesn't get a major facelift, Morita said.

The government measures, however, may not do much more than score points with voters. Moreover, some economists question the need for a stimulus package in Japan, highlighting a silver lining amid seemingly gloomy economic data.

Japan's economy is slowing and may slip into recession, but the downturn will be extremely mild and shallow, said Glen Maguire, chief Asia economist for Societe Generale.

It "isn't screaming out for fiscal stimulus," he said. "I am surprised that the government is considering (a stimulus package), and I think unfortunately we're seeing the political cycle have prevalence over the economic cycle at this stage."

Economists cite greater resiliency to external shocks than in the past, when Japan faced excess labor, debt and capacity. Also, Japanese financial institutions have incurred smaller subprime-related losses than their U.S. and European counterparts.

"We think the relative health of the banking sector and lack of 'fat' in Japan Inc. in terms of labor and production capacity should allow Japan to weather the current downturn with limited damage," Merrill Lynch economists Takuji Okubo and Masayuki Kichikawa said in a report earlier this month.

Indeed, Bank of Japan Gov. Masaaki Shirakawa reiterated in a speech Monday that while the country's economy will probably remain stagnant for the time being, stronger fundamentals should help it skirt the sort of deep downturn that led to the so-called lost decade of the 1990s.

What Japan is also trying to avoid is adding to its massive public debt, which ballooned in the 1990s as the government launched a series of ineffective economic stimulus packages focused on big spending on public works projects.

Gross debt totaled 180 percent of GDP in 2007 — the highest level ever recorded among OECD countries.

Cabinet ministers so far have kept to the mantra of fiscal prudence in public, saying they want to avoid turning to bonds.

Regardless of how they are funded, the latest stimulus measures will be modest in scale compared with those in the 1990s, when packages often surpassed 10 trillion yen.

"So it won't really benefit the economy, but it's unlikely to hurt it either," Morita of Barclays Capital said. "It's not a plan that will have much of an impact either way."

Source: International Herald Tribune