Troublesome state of Shinzo Abe

The Japanese economy is stagnating the last two decades yet. Its main problems are a declining real sector of the economy, combined with relocation of production capacities to China, high wages, a large number of long-living pensioners, together with a low birth rate, a huge (mostly domestic) public debt and severe problems in the national energy sector.

At the end of 2012, Japan's national debt climbed to 220% of GDP, being second only to Zimbabwe in this respect. This debt has been accumulated over many years. Japan’s population financed their government’s spending without asking themselves what would happen next. Sometime this question had to faced, and the current cabinet, led by Shinzo Abe, has been entrusted to solve it.

Inflation is not the only solution to the problem of domestic debt, but it is the simplest. Not so long ago, Hakuho Kuroda, chairman of the Bank of Japan unveiled an action plan of the country’s main bank for the next two years. By the end of 2014, the Central Bank of Japan plans to expand its monetary base from 138 trillion yen at the end of 2012 to 270 trillion yen by the end of 2014. This emission at the current exchange rates will be $1.4 trillion. Real incomes of the Japanese will fall dramatically and the cost of labor should be significantly reduced. In the opinion of the Japanese government, this measure can increase the economic competitiveness of the Land of the Rising Sun, increase its export potential and reduce the country’s trade balance deficit.

Thus, the government of Shinzo Abe have suggested to the people consume less and work more, i.e., the same thing that, from time to time, governments of all the countries offer to their people. In fact, the Japanese must do this, as there is nothing else left to do. The problem is that job numbers in Japan are declining.

The industrial sector of the Japanese economy is shrinking, which, however, is typical of most of the “old” industrialized countries. Meanwhile, this sector is what ensures mass employment, whereas research work in the field of new technologies is the prerogative of a small group of creative workers. More than 60% of the population of this country is engaged in management and services. If these trends continue, Japan may become another “banana republic”, earning money from tourism and souvenir trading. Naturally, such a prospect is unacceptable for Japan.

A decline in the living standards of Japanese families must inevitably lead to an increase in women's employment, which is now around 60%. Only one third of Japanese mothers are employed, 70% leave the labor market after the birth of the first (often the only) child. Abe’s government is planning to encourage the employment of women. It is very difficult to predict how this will impact on the very low birth rate in Japan.

Attracting foreign investments is another way out of the economic crisis, according to Abe’s government. This proposal contains nothing new that would force the scientific community to rewrite economics textbooks. The question is as follows. What industries of the Japanese economy could foreign investors invest in? We should repeat once again that there is now an outflow of capital to China from the Japanese industrial sectors. It is not profitable to produce anything in Japan, as wage rates, social benefits, etc. are too high. We are not talking here about major infrastructure projects, which are generally supported by the state.

Obviously, Abe’s government will have to make investments on its own, and not to rely on its rich uncles in America and the EU, who have more than enough of their own problems.
The current government of Japan is ready to take risks for the sake of attracting foreign investments. Abe, for example, said that he would try to cancel a series of strict rules in the medical industry and alleviate the housing regulations to encourage the construction of new apartment buildings in urban centers. This does not seem to be the best solution, taking into account the seismic situation in the Japanese islands.

Finally, the state of affairs in the country’s energy sector is not encouraging.

Kyodo News Agency, citing the Ministry of the Economy of Japan, argues that up to 300 tons of radioactive water daily leak into the ocean from the damaged nuclear power plant Fukushima-1. At the agency, they believe that this leakage of radioactive water has been going on for about two years. The situation has been now dramatically aggravated. Recently, the levels of radiation in some areas of the NPP have increased 18-fold, reaching 1800 millisieverts per hour, which is 6 million times above normal. Death occurs within 4 hours of exposure.

During two and a half years since the accident, the TEPCO Company has not managed to at least stabilize the situation. The Prime Minister Shinzo Abe says that the operator has exhausted its credibility with the authorities: “Given the ongoing problems of water pollution, the government will not blindly rely on TEPCO and will take the initiative. We will adopt all the necessary measures to replace those half-measures that have been taken until now.”

This is the conclusion, made by Japan’s government, which during two and a half years has assured the international community that the situation at the Fukushima-1 was under control and no ecological disaster threatened the planet. It turns out that the politicians “blindly” believed in the statements of managers of TEPCO.

From the abovementioned, it follows that the main feature of the current Japanese establishment is its inability to take decisive actions. Japan’s government prefers to “cover its tracks”, “bury its head in the sand” and “put a brave face on a sorry business”. This is their policy.

The government of Shinzo Abe needs to make profound changes in the country’s economy and foreign policy. Perhaps, they should recognize that, for now, Japan cannot compete with China, and they should not to try to repeat their “export miracle” of the distant 1960s. In addition, it is expedient for Japan to abandon the use of nuclear power, move to a constructive dialogue with Russia and to take part in the development of gas fields in the Far East.

Alas, Shinzo Abe cannot rely only on changes in monetary and credit policies.

*Konstantin Penzev, writer and historian, columnist, exclusively for the online magazine "New Eastern Outlook".*