BLACK HOLE 2: THE CASE OF JAPAN

JAPAN'S deepening depression will exercise a baleful influence over the world economy for at least two years. Not because industrialists are failing to cut their costs: they are doing just that. Nor can the government be blamed: it assumed power a few weeks ago, after the fall of the party that monopolised power for the last 40-odd years.

The principal problem lies with the confusions of economics as a social science. When dealing with economic issues, problems that seem clear enough - like peering into a pool of clean water - have the knack of turning into inscrutable mud.

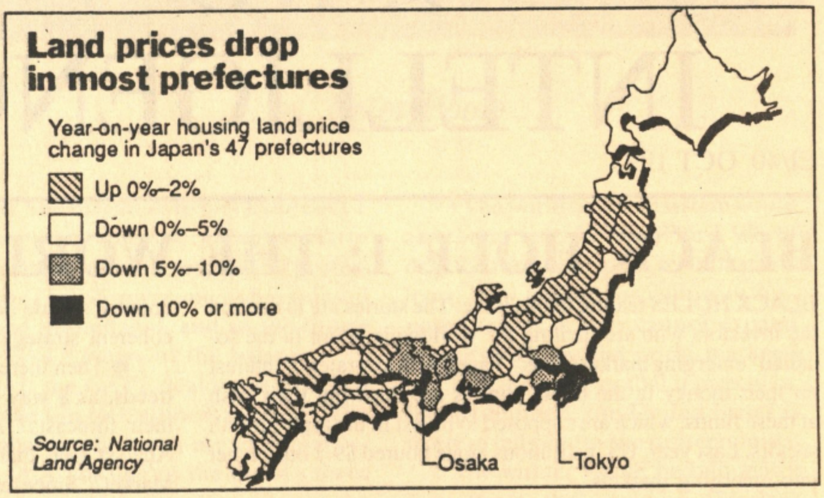
The government, for example, believes that a cut in income taxes would be the quickest way to rebuild consumer confidence. Plausible. Sales at department stores and the large retail outlets dropped by over 4% in August compared with the same month last year: the fifteenth monthly fall in a row. Encouraging people to spend is an obviously sensible suggestion, but would this be achieved by a cut in taxes? No; not in the current circumstances. An increase in disposable incomes would encourage greater savings, but would not be reflected in higher investment in capital goods.

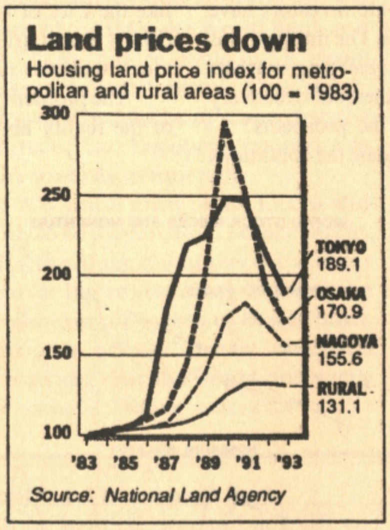
THE PRIMARY problem remains with the price of land, which has fallen - but not (yet) by enough.

◆ Residential land prices have dropped for the second year running - by an average of 3.6% for the country (3.8% the previous year). As a result, investment in private housing during April-June rose by 5% over the previous quarter: lower prices for condos reflected the drop in the cost of residential land. Builders have been able to tempt the young, first-time buyers.

But if you want to buy a "cut-price" condo you still have to raise nearly half-a-million dollars! Not surprisingly, couples are postponing nuptials. The average dating period before marriage is about three years, according to a recent survey, one year longer than the figure recorded 15 years ago. Unfortunately, the increase in the sale of condos is patchy, and analysts expect the sector to run out of steam within a year.

◆ For commercial land, the price fall in the past year was 7.7% (4.9% the previous year), according to data collated by the National Land Agency in July. Commercial activity is suffering because the rest of the world is stuck in a rut.





For example, Japan had hoped for an increase in exports to China. Car sales, however, reveal the prospects: exports to China increased by 3.3% in August, emphasising a seven-month downward trend. Communist China will not save the market economies, for reasons that further illuminate the flaw in the foundations of the market economy.

THE CORRECT stimulus would be for the government in Tokyo to shift the tax burden off earned incomes, and onto the rental income of land.

True, the first step in that direction was taken last year, with beneficial effect in the urban housing sector. But the new government, led by Prime Minister Morihiro Hosokawa, is not likely to press this radical fiscal policy to its logical conclusion. The coalition government holds power on the back of a crusade against political corruption, and that is where it will focus its energies.

In the past three months, 22 provincial government officials and construction company executives have been arrested. They were joined in September by the governor of a prefecture just north of Tokyo, who is accused of accepting a bribe of Y20m.

The government is well aware of the need to stimulate construction, however, which is why it has announced a plan to provide Y2.9 trillion ($27.6 bn) to the housing-loan budgets of two organisations. The money will be loaned at interest rates below the cost of borrowing from banks.

Japan's economists disagree on precisely how much of the government's prime-pumping money will actually end up as *mamizu* ("real water"). In fact, their calculations understate the problem. The new money will aggravate the crisis, by slowing up the decline in the price of land. Houses will continue to be priced beyond the means of the very people who would otherwise spend the economy back to full employment.

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