

## *Dual Crisis of Japan and the Prospects for Rejuvenation*

(First English draft translated from an essay, originally published in *One Year since 3.11*, Kawamura Tetsuji and others, eds., Ochanomizu Shobo, May 2012)

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Not so long ago, Japan experienced a bubble economy. The bubble's collapse was followed by long-term, large-scale failure in financial institutions and economic stagnation, which is an era now referred to in Japan as the Lost Decades. During this time, the nation was also exposed to greater economic globalization. Japan is now confronting another issue, one that we might refer to as a Dual Crisis, that has been caused in part by the aftermath of the Global Financial Crisis that emanated from the United States (US), and in part by the Great East Japan Earthquake and Fukushima nuclear disaster. This Dual Crisis manifests itself in fundamental problems for Japan's nation state and socio-economic system as they have come to exist since the Meiji period. How can Japan recover from this Dual Crisis? I suggest a direction based on the dual viewpoints of both the globalized and local economies, while paying particular attention to the situation in the Tohoku region.

### **1. Dual Crisis in the Japanese Nation State**

The primary challenge now facing Japan is what Alan Greenspan, ex-chairman of the US Federal Reserve, referred to at the time of the Lehman Brothers collapse as a "once-in-a-century" global financial and economic crisis. He further identified the crisis as the most serious since the Great Depression of the 1930s. This is a crisis within the global economic growth linkage itself, that is, within the system formed from the spread of global capitalism since its emergence in the 1990s that is centered around the linkages between the US and emerging economic powers. Expansion in this global economic growth linkage was propelled by a huge increase in the size of financial markets, which began engaging in casino-like operations. The focus was on capital accumulated in New York, the global financial center for the US dollar, which is the key international currency. The global economic growth linkage ultimately failed because it generated a financial bubble that collapsed through inherent systemic defects, thereby giving rise to a full-blown financial and economic crisis on a global scale (Kawamura 2009). In this sense, the essence of the crisis now being faced is in the core of relationships within global capital. The crisis is now entering its second phase with recent developments in the eurozone.

The first phase of the primary economic crisis was addressed by central banks in the US, Japan, and Europe by using unconventional methods such as virtually unlimited quantitative easing, and emergency measures such as government expenditure on an unprecedented scale (especially after the G20 communiqué of November 2008). This narrowly staved off financial failure and prevented economic panic from causing a cumulative decrease and downward spiral as had occurred in the Great Depression. In early 2010, the situation appeared to be improving; however, these governmental measures required states to shoulder the burden of market failures. The crisis also revealed certain qualities of post-war capitalism that were not dissimilar to the Great Depression and wartime economies. The market crisis has now grown into a crisis in state finances, but the original crisis itself continues nonetheless. The sustainability of contemporary capitalism is losing credibility.

Measures taken to deal with the crisis actually worsened the already huge financial deficit and exacerbated national debt. In the European Unions' weakest links—Portugal, Ireland, Italy, Greece, and Spain (PIIGS)—the situation would come to a head on the main stage of the second phase of this primary crisis: the euro. The crisis in Greece, especially, is far from over, despite the supporting schemes of major European countries, and of the European Central Bank and International Monetary Fund. The European crisis presents itself as a discrepancy between currency union and financial sovereignty of the constituent states. It has made apparent a fundamental contradiction in the unification of Europe via the European Union and the euro. There is even talk of dismantling both. In the US too, a deficit of over US\$1 trillion has continued since 2009 together with a cumulative increase in federal borrowing, which finally reached the maximum legal limit in the first half of 2011. Opposition intensified between Democrats and Republicans over this and the means to lower national debt. The issue of Japan's national debt is equally serious; since the Lost Decades, it has reached twice the GDP, or over ¥1000 trillion, the highest of any developed country. The situation is actually worse than during World War II.

Zero interest rates, the implementation of a public-debt-purchasing program, and large-scale quantitative easing are all unconventional and emergency financial measures for any peacetime economy. Together, these actions led to the retention of excessive funds in global markets, with side effects such as speculative rises in the price of crude oil, food, and raw materials, and bubble economies in emerging regions, notably in the Chinese littoral zone and Vietnam. Rising food prices is taken to be a major cause of the uprisings in Egypt and other Middle Eastern countries. In this sense, it can be said that those events are also part of the financial and economic crisis triggered by the failure of global expansion.

It has become obvious that there is a limit to the role that contemporary capitalist states can play as moderators of the global market economy. States are not always able to prevent global markets from running amok, or to stabilize the economy and rehabilitate society when they do. The current situation where states have to shoulder market failure shows that this limit has been reached. The requisites for recovery from the global crisis cannot be addressed through the logic of state *vs.* market. The essence of global capitalist dynamism lies in the opposition of markets and communities, and it has become apparent that any true recovery of socio-economic systems must lie in independent, self-help rehabilitation of private and local (regional) constituents. In short, this global has made it clear that communities must be the base for recovery.

With this background, Japan then experienced a once-in-a-thousand-year earthquake, tsunami, and nuclear disaster. The 2011 Great East Japan Tohoku Earthquake had a magnitude of 9.0, which is one of the highest ever recorded, and it caused a tsunami on a scale seen in Japan only once in several hundred years. (The last is said to be have been the Jōgan tsunami of 869.) The result was the devastation of many areas, which had a huge socio-economic impact. The number of victims and displaced people amounts to over 20,000 dead or missing, and hundreds of thousands of evacuees. In addition, the Fukushima nuclear disaster and subsequent radioactive contamination are so serious that the situation may reach, or even exceed, that of the Chernobyl disaster, which was previously the world's worst nuclear disaster. This sequence of events (earthquake, tsunami, and nuclear disaster) severed the supply chains of Japan's global companies, such as those in the automotive and electrical industries, and caused a severe slow-down in domestic and overseas production lines. Suspension or reduction in the

production of key elements had a negative effect on recovery, not only of the Japanese economy, but also that of the US. However, the greatest concern must be central government's confused response in the various socio-economic factors. Too many government organizations and committees were set up to deal with the disasters, while in the affected area there were considerable delays in the removal of debris and construction of temporary accommodation for evacuees. There is still no happy outcome in sight for the reconstruction of the affected people's daily lives. In particular, the tsunami-affected areas that fall within the serious radiation contamination zone around the Fukushima nuclear plant have simply had to have been abandoned.

Even in the matter of measures to be taken to prevent the spread of radioactive contamination from Fukushima, *ad-hoc* decision-making and information concealment were widely observed. This revealed just how poorly equipped central government organizations were, and how politicians, whether Liberal Democrat or Democrat, put the political process and their party's interests first. Ideas and planning for recovery remain chaotic. Many strategies put forward are typical globalization growth plans based on the very logic that the primary crisis has shown to be deficient. Any new interpretation of the principles of state, society, and the economy to replace this exhausted logic is simply missing. Moreover, the vast national deficit and national debt, which had already expanded during the Lost Decades, were seriously worsened by measures set in place to deal with the primary crisis (the global financial and economic crisis). Added to this was the need for further expenditure to deal with the recent disasters, which caused debt to further increase. Easy arguments about raising taxation have been used, but the lack of serious policy initiatives invites further economic woe. The limitations of central government have now been exposed, and the governing and managerial ability of the Japanese state system is on the verge of collapse.

## **2. The Socio-Economic and State Systems are in Question**

### **The Current Situation in the Japanese Socio-economic and State Systems from a Historical Perspective**

The scale of the 2011 earthquake and tsunami that hit Japan was unprecedented, but the overall crisis cannot simply be reduced to being a natural occurrence. These natural disasters and the consequent nuclear disaster exposed fundamental problems in the socio-economic and state systems that were created when Japan was rebuilt as a modern nation-state in the Meiji period in the latter part of the 19th century. The modern nation-state is based on the accumulation of capital, or capitalization and industrialization, and that system is now in question.

One can detect three historical phases in Japan's modernization and capitalization, and I will discuss these phases while focusing on the Tōhoku region. Japan's present problems are commonly held to arise from socio-economic changes caused by globalization, for example, the issues surrounding the Trans-Pacific Partnership or the US military base on Okinawa. However, as I see it, foremost is the issue of the formation of the pre-war, modern Japanese nation-state and the associated consequences (that is, its failures). Second is Japan's position within the post-war *Pax Americana* (the worldwide politico-economic system based on US-style capitalism). Third is Japan's relationship to global capital over the last thirty years.

From the beginning of the Meiji period until World War II, Japan constructed a centralized, monarchical state system around the Emperor, taking its lead from the

international norms of the *Pax Britannica*. Japan secured its sovereignty through a policy of increasing national prosperity and expanding military power. It also promoted new industries and established the capitalist base necessary to support them. During this period, Tohoku was defined as a supply center for food and soldiers. The policy ultimately failed due to a series of events, namely World War I, the Great Kanto Earthquake, the Showa Depression, and the Great Depression. Searching for an exit strategy, Japan invaded China and entered the Pacific War. These actions brought calamity to Japanese society and to its economic links with other Asian countries. The result was a dead-end and failure of the first stage of Japanese modernization, namely, its initial formation as a nation state. The reconfiguration of Japan's subsequent post-war socio-economic and state systems should have been made upon reflection on the seriousness of earlier experiences. Instead, the principle of rapid growth alone was followed, and as the ultimate consequence of World War II, Japan became part of the post-war *Pax Americana*. This made Japan the world's second largest economy, but at the expense of the hollowing out the many and precious local structures that had persisted for a long time. In this phase too, Tohoku was exploited as an industrial hinterland, a source of food and labor, and as the location of mass production and export factories.

From the 1970s, capital accumulation under the *Pax Americana*, led by the post-war economy of the US, started to decline, and this provoked considerable change as the politico-economic system supporting US post-war sustainable growth collapsed. In its place, companies and financial markets deployed their own independent profit-making logics with activities that went beyond national borders. Neoliberalism was the conceptualization of this new trend. At the same time, Keynesian economics, under which governments intervene to control the state's economy, seemed to lose validity. In particular, the Reaganomics of the 1980s initiated a new epoch in which government functioned only to support borderless competition strategies based on the free market principles of business and finance. This shift in the system of capital accumulation was due to the move to globalized capitalism. US manufacturing industries rapidly accelerated their overseas production (offshoring) and expanded their procurement of products, semi-processed goods, and parts from emerging economies (global outsourcing). Although weapons production and the arms industry were retained domestically, the deindustrialization of the US progressed apace. Instead of businesses based on domestic growth, as in the previous post-war model, global city-related businesses developed as key areas for US economic growth. Financial functions concentrated in New York, which turned it into a global financial center. Meanwhile, headquarter functions such as governance, management, administration, and research and development of global operations accumulated in major cities such as Los Angeles, the gateway to a growing Asia, and Silicon Valley in San Francisco, which became the world's largest information technology city. Following this, specialized service industries emerged, such as legal affairs, accounting, finance, consultancy, information, and temporary staffing. Construction of industries related to the expansion of cities, such as public facilities, infrastructure and housing, also began. This included the rise of commercial facilities such as shopping malls, restaurants, and amusement and entertainment spaces. Beyond these business-related specialists, all sorts of jobs in construction and in industries supporting urban functions expanded too. Workers flocked to those jobs from across the US and from Latin American and Asian countries, thereby increasing immigration. The functions of global cities were supported by global companies and by the profits and incomes of global finance. Global cities led an expansion of domestic demand. Such businesses constituted the primary engine of US economic growth in the age of globalized capital.

The national economy of the US maintained a vast current-account deficit by importing goods and services and fostering an enormous amount of offshoring and outsourcing. However, as the US dollar was the key international currency, financial settlement institutions gathered in New York, a global financial center, and there emerged a neo-imperialist global monetary flow into the US. Using US dollars held by New York's financial institutions and markets as their capital funds, US banks were capable of generating vast amounts of credit. Investment banks, such as Goldman Sachs, also participated, as did various kinds of institutional investors and hedge funds. This led to the expansion of markets through leveraged finances and speculative operations using the manipulation of derivatives and financial engineering. In this way, financialization and casino-like operations increased in the financial markets. The expansion of New York as a financial center functioned as the main engine behind the expansion of global investment, and a worldwide fund flow came into existence around the axis of the US. The global economic growth linkage emerged as the accelerator of economic growth on a global scale. This mechanism, in the US in particular, led to the information technology bubble of the late 1990s, and after its collapse, the housing bubble of the 2000s. Securitization mechanisms containing serious defects were the main reason for the collapse of the bubble. Such was the structure underlying the Global Financial Crisis, which is now commonly known in Japan as 'Lehman shock.'

### **The global economic growth linkage and the Tohoku Region**

What is the relationship between the global economic growth linkage and the Tohoku region? The recent earthquake, tsunami, and nuclear disaster have made the Dual Crisis particularly apparent, but the problem really lies in what occurs when globalized business, finance, and information, as expounded by the doctrine of neoliberal market ideology, encounters remote and local areas, such as those found throughout Japan.

Industrial changes in Tohoku during this period are shown in Table 1. Existing problems were deepened by the 'once-in-a-century' global financial crisis. The globalization of companies during this period accelerated the overseas transfer of Japan's mass production contributing to the deindustrialization that had started long before. While global cities, especially Tokyo, attracted headquarter functions and overconcentration in the Tokyo metropolitan area intensified, regional economies became impoverished. Aging and depopulation worsened and remote communities were pushed to the verge of extinction. Large areas of agricultural land were abandoned, and provincial towns became full of boarded-up businesses. Major manufacturers decided to move mass production overseas and domestic activities shifted to basic design and development as well as development of fundamental and element technologies, all of which were concentrated in the Tokyo metropolitan area, or in the few regional urban centers. As domestic production was increasingly limited to core parts and sophisticated components, only small numbers of highly-specialized jobs were available, such as engineering jobs. Young people moved to metropolitan and urban areas, and regional communities aged all the more rapidly. Agriculture became dependent on urban markets.

During this period, the regional economies that had already been decimated by the collapse of the bubble economy and the Lost Decades, and furthermore by the globalization of business and finance, intensified their dependency on public investment. Highways, high-speed railways, and harbor facilities were constructed by the public purse to assist them. So too were nuclear plants. The Fukushima facility provided a

major part of the power needs of Tokyo, Japan's biggest and ever-glowing global city, and Futaba District, the area in which the plant is situated, welcomed such investment because it was suffering from an aging and declining population. Central bureaucrats, government scholars, and profit-driven politicians, together with the mass media, circulated the myth of the safety of nuclear technology, and right up to the recent crisis were promoting the belief that up to 50% of Japan's energy had to be nuclear-derived to ensure its place in global growth.

The unprecedented natural disaster then triggered another crisis situation. The fundamental problems facing Japan are twofold, but this Dual Crisis actually derives from Japan's larger socio-economic and state systems, which are historical consequences of its original modernization process. This means that a fundamental restructuring of those systems is necessary to bring about true recovery and rehabilitation.

This issue potentially relates to a number of problem areas, including Okinawa, but its fundamental dilemma is most typically manifested in the nuclear disaster. The matter of nuclear technology is a huge concern, and it is closely linked to the military. In the US, ever since its development during World War II, nuclear technology has had as its main objective the development of weapons systems, which means it has been strictly and centrally managed by national security and military agencies. In Japan, nuclear technology has been overtly promoted as national policy, but in reality, nuclear facilities are managed by private companies. Nuclear technology has been promoted under the logic of deterrence, and with a superficial facade of Japanese demilitarization, but this symbolizes how contradictory the state system of Japan has actually become since World War II. The generation of electricity has been managed inseparably from its transmission by regional monopolies. Profit-driven politicians, bureaucrats, scholars, and businesspeople have seen to the creation of what are known in Japan as 'nuclear villages.'<sup>1</sup> These factors have all hindered promotion of renewable energy and decentralization of the energy supply. The limits and contradictions of the approach are clearly exposed by the Fukushima crisis.

### **3. The Road to Recovery and a Sustainable Future—Restoration of Renewability in Life and Culture**

The process of Japan's modernization is now a serious issue. The responsibilities of central bureaucracy, government-kept scholars, profit-driven politicians, and the mass media must all be re-examined, and obscurantist policies and attitudes must be ended. Sadly, public figures lack the wisdom necessary for social and economic recovery. Rather, such wisdom is to be found locally. Numerous recovery plans have been proposed to deal with the Dual Crisis, such as the New Growth Strategy for Japan of the supporters of the Trans-Pacific Partnership to attract high-tech industries such as vegetable factories to the tsunami-hit area, and the creation of smart cities. Other typical examples include the plan of Hiromasa Yonekura, chairman of the Japan Business Federation (see *Bungeishunjū*, May, 2011), and of the Tohoku Bureau of Economy, Trade and Industry in the Ministry of Economy Trade and Industry (see *Sangyo Fukko Action Plan, 'Sekai no sangyo-moderu o mezashita Tohoku no Saisei'* [Tohoku Industrial Recovery Action Plan 'Recovery of Tohoku Aiming at the International Industry Model], July, 2011). These offer scenarios whereby Tohoku will recover through further promotion of the

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<sup>1</sup> The close-knit, pro-nuclear relationship between members of government, researchers and the nuclear power industry.

global economic growth linkage. Yet the socio-economic situation in Tohoku during the period of globalization clearly revealed that those strategies contribute nothing, and so will not open the road to recovery, either in Tohoku or in Japan as a whole.

While advocating nationwide recovery, these strategies are in fact further examples of the market fundamentalism that only serves globalized business and finance. Regional and local societies and their economies are merely appended to them (as in classic trickle-down theory). Rather than rectifying existing dilemmas, these proposals will further impoverish the very communities and economies whose growth must be the core element of any revival. What is hailed as a New Growth Strategy is a desperate dream based on the global economic growth linkage whose limits have already been exposed by the economic crisis, or is at best seeking to gain some share in the growth of emerging economies. On the contrary, restructuring of the Japanese socio-economic and state systems must emphasize local community life and sustainable production, for this will be the path to true growth. In other words, the mantra of centralized nation-statehood should be broken. Since the Meiji period when Japan began construction of a modern nation-state under the influence of Western imperialism, people have been fed the ideology of Japan as a unitary, centralized entity. When faced with the crises post-WWI and the Great Depression, the processes of pre-war modernization and capitalization were revamped by national mobilization and manipulation of the Emperor System, and an appeal to *kokutai*, or the essential character of the Japanese state. This led to calamities inflicted at home and on other Asian populations and, finally, in complete failure. Pro-business leaders and the central bureaucrat have always told us that Japan will fail again, with an intolerable rupture of daily life, unless the competitive power of its companies is maintained. We must release ourselves from this false spell.

Globalization has unwittingly helped expose the fiction of the modern nation-state by relativizing it. Nuclear dependency, large-scale agriculture, and centralization of mid- and small-sized fishing ports are convenient scenarios for the recovery of the nation-state economy that conform nicely to the globalized capitalist model. But the recent disasters in the Tohoku region demonstrate that this is no longer valid.

#### 4. Conclusion

In general, the strategy that should emerge from the Dual Crisis is restitution to localities of power over a basic, sustainable life, where food, clothing, shelter, jobs, and culture can all be integrated and open. Importance should be placed on the local community and the village as the basic units that have weathered the storms of existence for centuries. These locales possess qualities of wisdom that have been overlooked, but which are real, and to be found all over Japan. Critical concepts are the economic sphere of local production and consumption (which includes the consumption of energy), the value of culture and life over the long-term, as well as agriculture, traditional diet, housing, and forestry deriving from natural, geographical conditions. Local industries and mid- and small-scale businesses must be fostered. It also goes without saying that the secretive and conventionalized qualities sometimes seen in remote communities should be opened up so that they can face the global world. It is the universals of local community wisdom seen all over the world that should be placed at the forefront of recovery.

Under conditions of globalized dynamism, the nation state can either serve to realize socio-economic recovery, or to hinder it. Yet it is at the local community level that the relationship of reproducible life spheres has its substance in the integration of food,

clothing, shelter, jobs, and culture. The modern nation-state is the abstract expression of a collection of fictions. Organizations standing between central power and local communities, whether companies, cooperatives, or local government, are permitted only subordinate functions. It is therefore of the utmost importance to revive a basic living sphere at the community level. Communities are the most deep-rooted human social units, and they can integrate all the fundamental elements of life. But they have been fragmented and marginalized by the market fundamentalisms of capitalism and by profit-driven policies emanating from a central and local government that only came into existence during Japan's modernization and capitalist development. Local business should not become subcontractors to larger, global business, and agriculture, fishery, and forestry should not depend on markets in global cities like Tokyo. Rather, local business should create solid links within sustainable and independent local economic spheres. On this foundation, a restructuring of the socio-economic and state systems could take place from the bottom up. This process would open the way to escape from the nostrums of the modern nation-state and its nationalisms, and restore a local economy that is at the same time open to global societies.

Japan is a domain with many differing values and cultural practices that are based on its particular climate and history. These were undermined by transition to a modern nation-state. Their restoration throughout the world is, therefore, the direction in which we should move to ensure a sustainable future beyond the framework of the nation state. Otherwise, we will have no alternative but to walk once again along the path of modernization based on a centralized, capitalist nationhood, even though this reached a dead end in 1930 after World War I, the Great Kanto Earthquake, and the Great Depression and brought Asia a great catastrophe.