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Japanese Government Bonds for Generating Domestic Demand: Issue One Trillion Yen Worth!

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The Heisei Depression is here. What is the sole means of extricating Japan from this quagmire?

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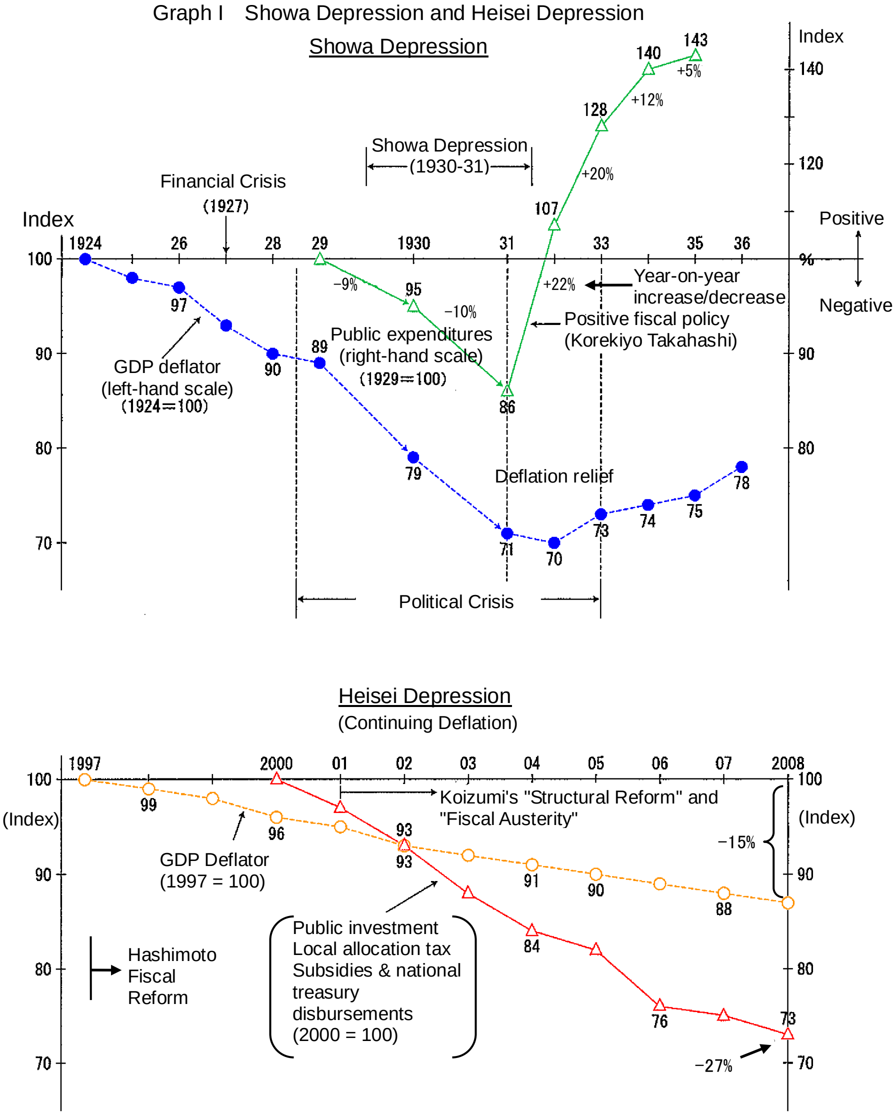
Japan has already sunk into an economic depression. Due to a sharp decline in exports and stronger yen, the real GDP growth rate (GDP = gross domestic product, which is roughly the total amount of our salaries and corporate pretax income) for Japan during the period from October to December last year showed a decline of more than twice the rate in Europe and the United States. The vulnerability of Japan's economy, which has come to depend only on exports, has been unmistakably exposed. The reason for Japan having fallen into what can be referred to as the "Heisei Depression" is that the "structural reform," the economic policy over the last 10 years, has been fundamentally incorrect. Structural reform has resulted in measures inhibiting domestic demand, which has put Japan on a course of "10-year deflation" and "10-year zero growth" and turned it into a miserable country ranking among the bottom four OECD (Organisation for Economic Cooperation and Development) member nations in regard to the relative poverty rate. Today, one-third of people employed, among young people the percentage is in the forties, are non-permanent employees (28 million people). The number of people receiving public assistance has topped 1.6 million, and the number of working poor, who receive less than two million yen annually, has surpassed 10 million.

However, on the other hand, Japan is also the richest nation in the world. Personal deposits and savings are ¥1,500 trillion, and more than ¥300 trillion of that has been lent overseas as net external credit.

In this article, I will reveal problems in the economic policies which brought about "10-year deflation" and "10-year zero growth" and then offer a prescription for putting Japan back on the growth track. Furthermore, I will look for practical measures in the lessons from the United States Great Depression and the Showa Depression, which the Japanese experienced, so we can overcome the Heisei Depression.

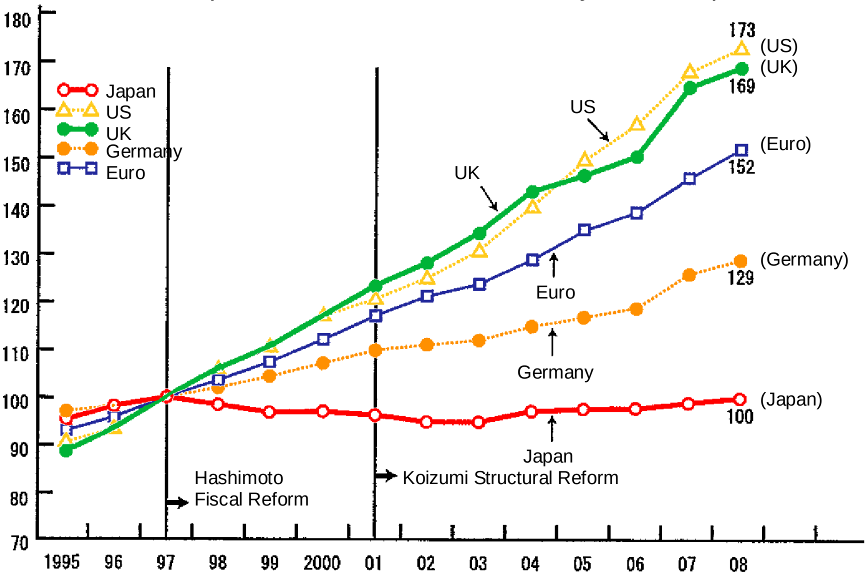
(Refer to Graph I and Graph II)

Graph I Showa Depression and Heisei Depression



Source: Prepared by the author from government announcements and documentation.

Graph II International Comparison of Nominal GDP
(Index uses 1997 as the base year = 100)



Source: OECD data for 2007 and 2008 estimates

"Structural Reforms" that Sunk the Economy

Japan's adoption of two mistaken economic policies brought about "10-year deflation" and "10-year zero growth." They are the "goal of balancing basic fiscal revenue and expenditure (target year 2011)" and the "stranglehold on financial institutions caused by the Financial Services Agency's triple play (payout limit system, current value accounting and asset-impairment accounting, and capital adequacy requirements)." These are based on the "contagious diseases" of neoliberalism and the marketplace mechanism doctrine.

The government and ruling coalition parties, which have contracted these contagious diseases, descended into the dogma of "small government," "fiscal balance," and "consumption tax hikes." The result is that Japan is today in a state of "unbalanced contraction" in which fiscal austerity deflation→contracting economy and zero growth→decrease in employment→falling tax revenue→tax increases (already the fixed-rate income tax reduction has been abolished)→consumption tax hike. Unless there is a radical change in policy, the situation will worsen markedly as we head toward "20-year deflation" and "20-year zero growth."

Deflation originally meant that commodity prices continued to decline. The index expressing overall trends in prices most accurately is the GDP deflator. When this measure is at a positive 2~3% annual rate, the economy is said to be healthy.

In 1997, the then Hashimoto cabinet executed fiscal reform. It raised income and consumption taxes and significantly reduced public investment. This fiscal austerity curbed demand in one fell swoop with the resulting tumble in stock prices. Major banks, which had large holdings of stock shares, saw their equity capital dwindle, triggering a large-scale credit crunch. The GDP deflator turned negative in 1998, the year after the "Heisei Financial Depression" occurred, and deflation began.

The Obuchi Cabinet, which took up the reins after the Hashimoto Cabinet, implemented a policy of financial stabilization (disposal of nonperforming loans) and business promotion measures from 1998 to 1999. This shifted the GDP growth rate to the plus side in 1999 and tax revenue returned to a level of ¥50 trillion, which along with other factors allowed Japan's economy to revive temporarily.

Nevertheless, the Koizumi Cabinet, inaugurated in April 2001, forced through quintessential deflationary fiscal and financial policies under the fine-sounding slogan of "structural reform." The economy which had been working to get back on the growth track was sent into a fatal dive.

In FY2002 on the fiscal side, a target was introduced of balancing basic fiscal revenue and expenditures (primary balance) by FY2011, which intensified the deflation. Because tax revenue decreased so dramatically due to the fiscal austerity consequent upon structural reform, the policy of balancing basic fiscal revenue and expenditures is an attempt to hold fiscal expenditures within the scope of that dwindling tax revenue.

Taking a more detailed look, distributions of local allocation taxes and national treasury disbursements were scaled back beginning in FY2001, and reductions in public investment began in FY2002. This policy has continued for eight years up to present, and has not been reconsidered even in the FY2009 budget. Making a comparison with the FY2000 level prior to the commencement of "structural reform," the amount of the eight-year reduction has been ¥47 trillion in local allocation tax distributions and ¥13 trillion in public investment for a grand total of ¥60 trillion. In other words, ¥60 trillion yen has been confiscated from local municipalities and the basic fiscal revenue and expenditures, which are in worse conditions due to the Koizumi Cabinet's fiscal austerity, has to be balanced by FY2011.

If we look at the nominal GDP growth rate by prefecture over the past eight years, with the exception of some areas, most prefectures have been at zero or had negative growth, and the gap between urban areas has only increased. The reduction in tax allocations especially has led to public services being curtailed in local communities, mainly for local healthcare and education expenses, and it has become the primary cause for a healthcare collapse.

On the financial side, the strangle hold on financial institutions with the "Financial Services Agency's triple play," which was mentioned above, has contributed to deflation.

Among the three points, current value accounting is a method for assessing securities and real estate (including collateral properties) at the current price when transacted at such time. Under current value accounting, each time the market price of stock shares and bonds goes up or down, equity capital fluctuates. When stock prices continue to fall, financial institutions' attitude toward lending becomes more and more stringent, and naturally, companies unable to receive financing start to pop up one after the other. The action of this kind of mechanism causes deflation to worsen even further.

During the Great Depression in the United States, the government declared, "Application of current value accounting to financial institutions is suspended," and this policy was in fact continued for more than 60 years until 1993. Currently, in Europe and the United States, there is for all practical purposes a moratorium on the application of current value accounting to financial institutions.

Additionally, the "capital adequacy requirement" has been applied to Japan's financial institutions since 1992. However, I believed that from the start, it "should not have been applied to regional and other such banking institutions." The reason is that equity capital would decrease in a time of increasingly severe deflation, so the requirement would yield a factor which would cause lending to drop off. Despite the fact that there is zero growth domestically because of "structural reform," the embellishment of GDP on account of the "weak yen bubble" and the "export bubble" have drawn a veil over the extent of the situation. The government has manipulated the yen-dollar rate to weaken the yen using extremely low interest rates and an easy-money policy to stage a weak yen and export bubble.

These policies have created a positive nominal GDP growth rate in urban areas in some local regions (Aichi prefecture, Mie prefecture, etc.) where there are many export companies so as to just barely head off negative domestic growth in Japan. Gradually, the percentage that exports account for of GDP has risen and even reached 15~17% in 2008. The ratio that "net exports (arrived at by subtracting imports from exports)" accounts for in GDP was around 1% in the 1990s, but 5% in 2007, which in monetary terms is a rise to a level exceeding ¥25 trillion.

In an environment where dependency on exports has risen, a global simultaneous recession, which started in the United States in the second half of last year, appeared and sent stock prices plummeting around the world. Overseas demand has declined drastically, inflicting serious damage on Japanese export industries. The United States consumer boom has already collapsed, and in the months to come, imports from Japan will likely fall considerably in Europe and Asia.

The policy glossing the surface of negative domestic growth with an export bubble has broken down. Net exports, which had hit 5% of GDP, have fallen to zero or below, and the drop in domestic effective demand has been at least ¥25~35 trillion. The "export superpower" Japan has drawn near to its end. Also, the consequence of "structural reform" which led to Japan's "10-year deflation" and "10-year zero growth" has been the disintegration of the domestic economy.

"Five-Year Plan to Resuscitate Japan"

What sort of prescription do we need to extricate ourselves from the current "Heisei Depression"? Here, I would like to propose the following policies.

First, factors contributing to deflation from an institutional perspective need to be eradicated. Therefore, the "goal of balancing basic fiscal revenue and expenditure" should be suspended and repealed, and the application of the "Financial Services Agency's triple play" should be abolished. Both are incompatible with Japan's current situation and are systems derived from the marketplace mechanism doctrine. The government needs to cease fiscal austerity and its course of tax increases, and switch to a policy moving toward fiscal activism through prioritized investment and investment tax credits. As for the payout limit system in the "triple play," it has been for all intents been frozen as the prime minister and finance minister announced that "all bank deposits will be covered" and "the government will guarantee fund transactions between banks." Also, just as financial institutions in the United States came up against a crisis, the introduction of current value accounting has been suspended. A moratorium on the "triple play" should be legislated to stamp out the marketplace mechanism doctrine from the root of the financial and fiscal system.

Second, a conversion should be made from "export superpower" to "social superpower." In Japan where the economic model focusing on exports has collapsed, a conversion is demanded to an economic model that expands domestic demand and fosters domestic demand-centered growth industries. To become a "social superpower," a firm safety net will need to be spread as a the underlying base to upgrade healthcare, pensions and other social security systems, and extend these to all citizens. This might be able to form a source of revenue for social security costs which could be generated as economic growth is promoted.

I would like to propose the "Five-Year Plan to Resuscitate Japan" as a specific means of breaking this impasse. This plan annually implements an economic stimulus package of ¥40 trillion (8% of GDP), which will be a combination of ¥30 trillion in government investment and a ¥10 trillion tax credit quota (investment tax credits, reinstitution of the fixed-rate tax reduction, and a decrease in the consumption tax), which will be continued for a period of five years. The ¥40 trillion yen will be entirely new fiscal expenditures (fresh water) for a total budget over five years of ¥200 trillion. As business recovers and tax revenue increases, fiscal expenditures for the initial year will be returned on the increased amount of tax revenue during in the fourth year, so funding of roughly ¥120~130 trillion for the five-year plan will be sufficient.

The new growth industries which should be fostered are those which will enrich the lives of citizens, such as the creation of a social foundation and infrastructure that will improve people's lives, development of the natural environment, education, healthcare, and resource issues with an eye on the future. There is a limit to what the private sector, which is depressed because of deflation, can do, so the public and private sectors should come together and the nation as one should declare a great vision for the future.

Also, local allocation tax grants should be increased considerably for local municipalities which have been impoverished to an extreme degree on account of the fiscal austerity. Total "distributions of local allocation taxes" and "national treasury disbursements," which have fallen to ¥25.4 trillion in the FY2008 budget, should be promptly returned to the FY2000 level of ¥34.4 trillion. With the returned money, the shoddiest social capital of the G7 nations will be improved through such measures as relieving traffic congestion and rush-hour hell, problems which have persisted in urban areas, as well as by laying power and telephone lines underground to beautify and preserve the urban environment.

From this plan, we can expect the following economic growth (author's estimate using the economic model detailed by Shuntaro Shishido, former vice-president of Tsukuba University, who contributed an article to the March 31, 2009 edition of "Shukan Economist"). (1) The nominal GDP growth rate will be an annual average of 4~5% (real GDP at 3~4%). (2) The nominal GDP monetary amount will be ¥503~540 trillion in the first year and ¥650~680 trillion in the fifth year. (3) Tax revenue will total ¥52~54 trillion in the first year and ¥70~75 in the fifth year. (4) The national contribution ratio of government "net debt" will equal 55~58% in the initial year and improve to 42~45% in the fifth year, which will be very sound fiscally. "Net debt" is the net sum of debt arrived at by subtracting government held financial assets from government gross debt. From this, expenditures can be adequately provided for healthcare costs, pensions and other social security expenses, without raising the consumption tax.

Any Amount of Financial Resources is Available

A prescription has now been proposed for extricating ourselves from the "Heisei Recession," but where are the financial resources to undertake such fiscal expenditures? Actually, any amount of financial resources desired is available in the government and the private sector.

The Ministry of Finance has instigated a fiscal crisis by stating, "Japan is carrying a debt of ¥838 trillion and this is a dangerous amount that has reached 160% of GDP." On the other hand, Japan is also a creditor nation holding the most financial assets in the world. For any nation, public finances should be viewed in terms of "net debt" and particularly since the Japanese government is holding financial assets that exceed GDP (in special accounts), it seems abstract not to view the situation in terms of net debt. As of the end of 2007, "gross debt" was ¥838 trillion and "financial assets" were ¥549 trillion, so "net debt" was no more than ¥289 trillion. This is 52% of nominal GDP, and on par with the Euro zone. Among overseas economists and people involved in finance, there is not one person who thinks that Japan is having a fiscal crisis.

In order to revitalize Japan's economy and turn it into an economy capable of increased tax revenue, the nominal GDP growth rate needs to be raised to an annual 4~5%. For that, the government has to cease fiscal austerity, convert to a policy of fiscal activism and focus its priorities for fiscal expenditures on investment items. Looking at this situation from the experience of the past, there is absolutely no other path than this for increasing tax revenue and shrinking the budget deficit.

Funding for fiscal expenditures to such ends can be considered in the following manner.

(1) Issue ¥80~100 trillion in "Japanese government bonds for generating domestic demand."

Government construction bonds are to be newly issued to create domestic demand. These new bonds might be called "Japanese government bonds for generating domestic demand." Japanese citizen's deposits and savings which are invested in United States treasury bonds can be used. Our deposits and savings should be used for our benefit.

Currently, of the external credit held by Japan, ¥90 trillion is held as foreign exchange reserves, of which the majority is invested in United States treasury bonds. Foreign exchange reserves are funds held to be used when a country falls into an economic crisis or when a large amount of foreign currency is suddenly needed. Because the foreign currency is purchased for the state, it is natural to finance such purchases with central bank funds.

Until September 1999, foreign exchange reserves were raised using Bank of Japan funds. The yen funds needed when the Ministry of Finance purchased dollars (sold yen) on the foreign exchange market as a countermeasure to a strong yen were procured by having the Ministry of Finance issue short-term government securities that were accepted (bought) by the Bank of Japan. This is par for the course in any country where the central bank acting as the representative of the state procures and holds foreign exchange using its own funds.

However, since October 1999, the government has been selling off its short-term securities on the market to procure yen funds for the purchase of foreign currency and these have ended up mainly being bought by ordinary financial institutions. In this respect, the deposits and savings of our citizens have been directed toward the purchase of short-term government securities, and the government has used these funds to purchase dollars and keep the yen from strengthening. The dollars purchased in this manner have been invested almost entirely in US treasuries. In other words, the deposits and savings of our citizens have flowed overseas and are not being used for the benefit of Japan's citizens. This is one reason that the domestic economy has been sluggish.

In the method proposed here, the government newly issues government construction bonds (government bonds for generating domestic demand), and at the same time, the Bank of Japan buys the short-term government securities issued for foreign exchange reserves on the market with the exact same amount as the new government construction bonds. By doing this, we will be able to return to the principle of "foreign exchange reserves being covered with central bank funds," and the "government bonds for generating domestic demand" will not become a new burden on the public, but will end up being procured with the public's deposits and savings.

If the funds for procuring foreign exchange reserves are able to be returned to the Bank of Japan's financial assets, then the ¥102 trillion (at the end of 2007), which was the amount of original capital used for foreign exchange reserves from among the deposits and savings of the public, will be available to be immediately utilized for issuing the government construction bonds. Moreover, a large part of the funds for social security also is also money that we citizens have contributed, and is a reserve which can become collateral for issuing new government bonds. At the end of FY2007, this balance was ¥222 trillion.

(2) Issue in excess of ¥20 trillion "deflation ending government bonds" to individuals.

These new government bonds, which will be issued for five-year terms and are of the same type as non-transferable deposits, will be held in principle by investors for five continuous years. These are to be called "deflation ending government bonds." After five years, a benefit will be conferred on the purchaser of an award amount of 10% to be non-taxed, or the inheritor will received an inheritance tax credit in the same amount as the award. Currently, a large amount of the inheritance tax is often paid in kind with land or farm land. For people who desire to purchase these new government bonds, government-affiliated financial institutions will provide loans in the same amount as the land or farm land collateral. If the elderly use this loan system to purchase the new government bonds during their lifetime, it will be possible to receive a tax deduction when the inheritance is distributed.

(3) Apply ¥50 trillion of the "government's stockpiled reserves (buried money)" in special accounts to investment items in the general account.

Profit from managing the foreign exchange reserves (approximately ¥3~4 trillion) and the "accumulated funds, surpluses, and balances carried forward" in special accounts (¥104 trillion at the closing of accounts for FY2006) should all rightfully be placed in the general account and treated the same as tax revenue because there is absolutely no need for it to be stored in a special account. These are to be used as a source for financing the government's investment expenditures. Additionally, the redemption by purchase prior to maturity of issued government bonds using funds from the National Debt Consolidation Fund (balance carried forward and surplus of ¥34.9 trillion at the closing of accounts for FY2006), as is currently being contemplated by the Ministry of Finance, should be halted.

If funds obtained in the aforementioned manner are directed toward government investment and the economic revitalized, nominal GDP will also increase and tax revenue will grow. The result will be that the national contribution ratio for government debt (ratio achieved by dividing government debt by nominal GDP) will decline and outstanding government securities will decrease.

Lessons from the Showa Depression

We experienced the Showa Depression over a period of two years form January 1930 to December 1931. By conducting a detailed analysis of the conditions at that time, perhaps a light to help us break out of the depression might be seen.

When the Heisei Depression and Showa Depression are compared, we notice that there are many similarities. The first is that they had both "fiscal deflation" which was instituted to force a fiscal balance (reducing fiscal expenditures to meet tax revenue which had fallen due to the government's own deflationary policies) under the guidance of the Ministry of Finance in the midst of advancing deflation. Also, financial policy during both took a course which tightened credit.

The leader during the Showa Depression was Prime Minister Osachi Hamaguchi (Constitutional Democratic Party) and the Minister of Finance was Junnosuke Inoue, a veteran of the Bank of Japan. The 15% reduction in fiscal expenditures over the two years beginning in 1930 instantly accelerated the deflation (negative GDP deflator) which had continued since 1924.

In the Heisei Depression, "fiscal reform" and the "policy of balancing basic fiscal revenue and expenditure" were advanced under the leadership of the Ministry of Finance. Also, Heizo Takenaka, Minister for Financial Services, undertook the "disposal of non-performing loans in the market mechanism liquidation model." Under Takenaka's administration, non-performing assets were increased by the use of asset-impairment accounting and UFJ Bank, which had not produced any credit uneasiness, was intentionally forced into a merger, destabilizing the financial system. Moreover, since 2001, public investment as well as distributions of local allocation taxes and national treasury disbursements (subsidies) were reduced continually every year and cut 27% (cumulative amount of ¥60 trillion) over the eight year period. The FY2009 budget also is a model for promoting deflation and no end can be seen to the depression.

The second is that in both periods the yen-dollar foreign exchange markets were revaluated. In the Showa Depression, the value of the yen against the dollar was rounded up 22.9% and returned to the gold standard (a currency system that adjusts the money supply to the increase or decrease in gold held and connects the yen to the price of gold). In the Heisei Depression as well, the value of the yen against the dollar has rise roughly 20%, and exports have decreased.

The third is that during the Showa Depression, newspapers and radio broadcasts commended the deflation, and in the Heisei Depression also, the mass media has passionately propagandized structural reform and fiscal crisis.

The fourth is that the return to the gold standard during the Showa Depression has been disseminated in the Heisei Depression as though neoliberalism and the marketplace mechanism doctrine are the current "global standard."

The fifth is that social unease has intensified. During the Showa Depression, people's lives were so destitute that notices were put out, saying: "Please come to our agency if selling a daughter into bondage (to a geisha house in the city)" (Agency in Isazawa Village, Yamagata Prefecture; from the Yamagata Shimbun dated February 5, 1930). Both Prime Minister Osachi Hamaguchi and Minister of Finance Inoue were attacked. The sacrifice of the people attributable to the deflation and their opposition to it were not uncommon. and when the Manchurian Incident of September 1931 broke out, the public cheered. The increase in the number of needy people during the Heisei Depression has also been noticeable, and the first major social unrest since the war has been fermenting.

However, a change in administration in December 1931 brought the end of the Showa Depression into view.

Prime Minister Tsuyoshi Inukai of the Friends of Constitutional Government Party, who took over after the Constitutional Democratic Party's Wakatsuki Cabinet, appointed Korekiyo Takahashi to be the Finance Minister. Takahashi first abolished the gold standard, and decided that the currency supply would be determined at the discretion of the government and the Bank of Japan regardless of the balance of gold holdings. The new policy of the Friends of Constitutional Government Party was announced to the people, and a public commitment was made to "ease financing significantly" and "increase employment opportunities using public investment." It was at this point that the deflation mentality of the Showa Depression was dispelled.

Continuing on early, fiscal expenditures were increased considerably, mainly for public investment. Looking at a comparison over the previous fiscal year, consecutive increases of 22% in 1932, 20% in 1933, and 12% in 1934 converted the negative GDP growth, which had continued for four years since 1928, into positive growth. Commodity prices rose and national income also increased. Employment also rose due to the expanded economy and there was a favorable impact even on the local economies. The result was that beginning around 1933, tax revenue also started to rise, and beginning around 1934, the capital for the government's investments was able to be covered by increased tax revenue, decreasing the amount of government bonds issued. When government bonds are issued as a measure to stimulate the economy, the government's debt burden increases during the initial one or two years, but then over the third and fourth years, nominal GDP rises and tax revenue grows, so the national contribution ratio for government debt will decline.

Public Investment Staved Off a Severe Depression

On the other hand, how did the United States recover from the experience of the Great Depression?

In October 1929, the year before the Showa Depression began, there was a great crash in stock prices on the New York Stock Exchange, which developed into a major financial depression. Then President Hoover (Republican Party) let the banks fail, so the financial system collapsed and economic activity stagnated. Because gasoline taxes were raised in an attempt to cover the fall in tax revenue, economic activity cooled even further and by 1932, national income had fallen to almost half of the amount in 1929.

In the midst of this, Roosevelt of the Democratic Party, who was inaugurated President in March 1933, implemented policies to redress the Great Depression both fiscally and financially. On the financial side, he enacted the Emergency Banking Relief Act to open the way for an influx of public funds into the banks, enacted a new banking law (Glass-Steagall Act), which prohibited banks from holding stock shares, and created the Federal Deposit Insurance Corporation.

Prior to enacting the Emergency Banking Relief Act, the government established a seven-day bank holiday to reinvestigate the assets of banks and sort out the banks which would be reopened and those which would be allowed to fail. In his fireside chat on the evening before the banks were reopened, President Roosevelt addressed the nation and said, "The banks reopening tomorrow will absolutely not fail...I can assure you that it is safer to keep your money in a reopened bank than under the mattress." The following day, people lined up in front of banks early in the morning, and the public en masse went to put their "closet savings" in the banks. The "deflationary mentality" ended at that point.

While on the fiscal side, severe negative growth had continued for four years, so there was no other course to revitalize the economy than to stimulate demand using public investment. From 1933 to 1936, fiscal expenditures were increased at an average of 6% compared to annual GDP, and those increases were focused on public investment. Government investment increased mainly in areas where private sector investment was forestalled, such as highway and dam construction, large-scale irrigation projects, forest conservation and growth, preservation and improvement of the environment, new construction of hospitals and schools along with other works. Policies were advanced that attracted private investment. Even with such measures, it was only in 1936 that the private entities started to undertake investment using bank loans, clearly showing the prudence of private investment after deflation.

Looking back at the Showa Depression and the United States Great Depression, we can say conclusively that "only public investment can break the economy out of a deflation." Also, in both cases, even thought government bonds were issued and government debt increased, nominal GDP rose. Associated with that was an increase during the first one or two years in the national contribution ratio for government debt, but from about the third year on, this ratio declined. In other words, economic recovery→increase in nominal GDP→increase in employment→increase in tax revenue, and because the increase in nominal GDP is greater than the increase in debt, the national contribution ratio for government debt will decline. When public investment and items for fiscal investment such as healthcare expenses are increased, there is an increase in the size of the economy (nominal GDP) as well as growth in employment and tax revenue, which leads to fiscal reform.

United States President Clinton, who came to office in 1993, continued for eight years policies that focused the substance of budget expenditures on public investment, regional development and investment items such as education and training, and in his fifth year, the fiscal balance turned positive. Also, he enhanced progressivity in corporate income and personal income, which brought about a natural increase in tax revenue due to the economic recovery.

Shuffle off Deflation with a Change in Administration

Barack Obama, who was inaugurated President of the United States during the worst recession in one hundred years, has followed the lessons of his predecessors.

In January of this year, President Obama announced economic measures on a scale surpassing a sum total of $700 billion. This is equivalent to approximately 6% of the United States GDP and almost consistent with fiscal magnitude that President Roosevelt laid out for public investment during the Great Depression. President Obama has also incorporated the successful example of President Clinton who alleviated the fiscal budget deficit over five years using public investment and has taken close aim at an effect to buoy the economy through policies strengthening the economic and social foundation and with resolute fiscal expenditure. Moreover, in the brain trust supporting the administration, experts such as Lawrence Summers, director of the National Economic Council, and Christina Romer, chair of the Council of Economic Advisors, have been brought together.

On the other side in Japan, believers in the marketplace mechanism doctrine still dominate the Council on Economic and Fiscal Policy as well as the advisory councils of the Prime Minister's Official Residence, Ministry of Finance and the Financial Services Agency, and absolutely no constructive opinions have been put forth. The government ruling coalition in Japan is certainly brain dead, and it is likely that unless there is a change in administration, no decisive economic policies will be hammered out.

Japan is still in a recession without an end in sight. When we analyze the causes of "10-year deflation" and "10-year zero growth," we can understand very well that we have been affected by the contagious diseases of neoliberalism and marketplace mechanism doctrine. We have fallen into these trap both financially and fiscally.

In particular, a consumption tax increase is a consequence of a marketplace mechanism-type tax system (Reagan-style tax system), and if forced, Japan will certainly sink into a "20-year deflation." Milton Freedman, the founder of neoliberalism, said, "A flat tax rate is the most desirable regardless of whether it is individual or corporate." In other words, his assertion is that the "tax rate should be 10% for individual income that is ¥300 million or ¥3 million. That denies graduated taxation, which the tax rate has, to provide for social security systems and correct income distribution. The United States, which adopted nearly flat taxation in 1982 during the time of President Reagan, saw tax revenue drop dramatically, large fiscal deficits run up, and the country fall into the ranks of a debtor nation in 1989.

For Japan to emerge from its "10-year deflation" today, it would be advisable to implement the "Five-Year Plan" detailed in this article, replace marketplace mechanism-type tax system with a Japanese-style tax system, and return income taxes and corporate taxes to a more progressive structure. If this is done, along with the economic expansion, there will be a natural increase in tax revenue, and a reduction in the fiscal deficit as well as fiscal reconstruction will become possible, making a reduction in the consumption tax rate a possibility.

The basis for breaking out of deflation, as history teaches us, is a change in administration. It is impossible for an administration which has forced through deflationary policies to initiate policies for a 180 degree turnaround. The administration should step down and clarify its responsibility in regard to the nation's citizens as well.

At the same time, it is essential that there be a comprehensive replacement of the economists and others often appearing in the media as well as official academicians on government advisory committees and other panels who have all supported the deflationary policies. A change in people and policies resulting from a change in administrations will save the country.