IIMA
Institute for International Monetary Affairs
NEWSLETTER
財団法人 国際通貨研究所
2001. 5. 7.
(No. 4, 2001)

Only CEOs can save the economy

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The U.S. economy is slowing down more rapidly than expected, creating a somewhat chaotic environment for the new administration of U.S. President George W. Bush and the economic world at large.

After posting an annualized growth rate of 5.2 percent in the first half of last year, the U.S. economy plummeted to 1.9 percent growth in the second half. Analysts expect zero growth in the first half of 2001. The Dow Jones industrial average has fallen by 20 percent over the past year as investors have wearied of companies posting earnings downgrades. Similarly, the Nasdaq composite index has dropped to one-third of its peak. The bubble of the U.S. economy has well and truly burst.

Since it was a matter of course that the world's most powerful economy could not possibly keep growing indefinitely at a rate exceeding 5 percent annually, everyone had expected an adjustment, sooner or later. The problem is that while many Americans anticipated a soft landing for the economy, the actual downturn in business sentiment has been very severe since last autumn.

What occurred in the U.S. economy in the second half of the 1990s was nothing more than the creation of an investment "bubble" that has subsequently collapsed.

During the 1980s, U.S. corporations established world hegemony in the wake of the development of information technology (IT), aided by the forces of globalization.

U.S. enterprises made extremely aggressive investments, particularly in IT and communications-related hardware and software. Such capital spending increased to more than 10 percent annually in the second half of the 1990s, and to nearly 20 percent in the first half of last year. Productivity improved through corporate restructuring, resulting in increases in earnings.

Investors touted this phenomenon as evidenced by rising share prices, leading to the emergence of a state of "irrational exuberance." Virtual financial assets ballooned in value as a result of the rise in stock prices, creating a favorable cycle that helped expand consumption and boosted corporate profits.

After witnessing the uninterrupted ascent of the U.S. economy over the past decade without any sharp rises in wage costs or inflation being triggered, it was natural for many Americans to think their economy had developed into a so-called "new economy."

Free, competitive and efficient U.S. markets and U.S.-style corporate governance, that sets its prime objectives on maximizing shareholder value, were believed to have been the source of the strength of the U.S. economy.

Even though the Americans understood that they should be humble during their period of good fortune, they failed to hide their feeling of exuberance in seeing U.S. corporations dominate the world economy as global champions. Put simply, the United States became conceited.

It has been very significant that the abrupt slowdown in the growth of IT-related shares since last year has denied "godhood" status to the U.S. economy. It was a fact that the enhancement of productivity resulting from IT made the nation's economic growth more powerful and sustainable.

However, it was an illusion to believe that the U.S. economy had been freed from the economic cycle and developed into a new economy. The time will certainly come for adjustments, even for an excessive investment boom and an irrational rise in share prices, and the degree of adjustment is in proportion to the degree of exuberance. It will probably take three years for the U.S. economy to regain a sustainable growth rate of around 3.5 percent.

My interest in this phenomenon is what sort of impact the experience will have on the U.S. economy's myth of invincibility. The United States' economic hegemony has led to the establishment of U.S.-influenced global values, confined not merely to corporate governance but also extending to social norms.

In fact, the problems of globalization are largely due to the conflict between U.S. standards and other countries' values. Values such as the priority given to competition, private enterprise, shareholder value and maximizing economic welfare were all first established in the United States and are now rapidly spreading to the rest of the world.

Accompanied by many derivative events, the collapse of the bubble in IT investments evolved in the United States. Will this experience simply be just a small hiccup in the economic cycle, or, just as in past events of technical innovation, will it have the effect of shifting people's interest to their own spiritual values? In particular, will it cause the Americans to review their value system?

Regrettably for me thus far, almost all my American friends seem to have taken pride in enduring the bursting of the IT bubble without even blinking their eyes.

How should Japan cope with this situation? Needless to say, the Japanese economy is in a difficult situation. The start of a downturn in the economy and the impact of the U.S. economic slowdown have coincided. Foreigners are beginning to increasingly voice their mistrust of the Japanese financial system and politics, with such voices being amplified at home. For the present, the situation makes it impossible for the Japanese economy to recover from the doldrums.

The 1997 crisis of the Japanese financial system exposed the economy's ailments. A sense of crisis that something had to be done regarding the economy spread swiftly among the Japanese people after they discovered the U.S. economy's roaring success.

As a result of a wide-ranging national debate, it may be correct to say that the solutions to the economy's problems have now been revealed, with the possible exception of fiscal and financial policies for an aging society. The task facing the people is not to look for the answer, but instead put the answer into practice.

There are two prerequisites for the execution of reform of the Japanese economy. One of them is that individuals or groups should be present to lead the execution. The other is that the reform effort must gain broad support in society.

It is often said that Japan is enveloped in a sense of fatigue and stalemate. This is probably because the first condition is not being fulfilled.

Looking back in world history, one finds that the same people have not necessarily guided reforms. The reformers were sometimes politicians, bureaucrats, entrepreneurs, workers, people in the press, academics or students. In other words, guiding reform is not something that is exclusive to a particular group in society.

Depending on the situation, it is not unusual whatsoever if different people take charge of the reform process. Society must select the best leaders of reform to suit the given environment.

Of late, there are many people who lament the lack of political leadership in Japan. It seems that if they continue to deplore the lack of leadership they could become qualified as reformers.

However, it is completely unrealistic for the people of Japan to seek a charismatic political leader who can lead the country in the right direction.

Unless there are major changes in voter awareness, the electoral system and the structure of political parties, finding such a leader is virtually impossible.

Japanese bureaucrats, who once were the nation's shadow leaders, are currently in danger of losing their reformist vigor as they undergo criticism akin to social ostracism after being censured for their negligence in coping with change.

It is promising that, of late, there has been a tendency among younger bureaucrats to take the future of the country into consideration. However, it will take a considerable period of time for the bureaucrats to regain their former status as being part of the national leadership.

If the politicians and bureaucrats are of insufficient quality, the only people left to drive the reform process are company managers. This is not only due to a process of elimination, but also because the country needs to reestablish its international competitiveness.

In short, the main problem confronting the economy is that the construction, real estate, distribution, financial services and agricultural industries lack international competitiveness. It is only natural for those businesses that have long been sheltered by government from competition to lose their competitiveness, as they cannot cope with change. It is because of this that the question of reforming such industries is now the main problem.

If the chief executive officers of these businesses succeed in improving their corporations and returning them to profitability, thereby winning the trust and approval of the markets, the reform of the economy may be realized.

In order to achieve such economic reforms, a large number of Japanese corporations may need to replace their CEOs. A change in management is necessary in order to improve the corporations' accountability and to rejuvenate their businesses.

Secondly, the CEOs must act as CEOs. Many Japanese corporations do not operate such a system of management. Former managers or so-called mentors often interfere with the actions of the incumbent CEOs, while middle management tries to circumvent corporate policy and defend the status quo. As things stand now, the CEOs cannot make decisions unless they get the consent of those above and below them.

What should not be forgotten is that there are many excellent large and small enterprises in Japan even now, run by preeminent CEOs. The problem is that they do not comprise a majority of Japanese companies.

If many corporations can achieve reform through the efforts of their CEOs and attain criticality, the Japanese economy will be able to rejuvenate. Presently, the hope and responsibility for the rebirth of the Japanese economy is in the hands of business leaders.

(Originally published in the Yomiuri Shinbun "Only CEOs can save the economy" on April 30, 2001.)

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