

2011年3月30日 asahi.com

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POINT OF VIEW/ Yoshiyasu Ono: Buy Tohoku products to support rebuilding efforts

SPECIAL TO THE ASAHI SHIMBUN



photo

Yoshiyasu Ono (The Asahi Shimbun)

Japan has been battered by a gigantic earthquake of unprecedented magnitude.

The immediate priority should be placed on making all-out efforts to provide relief to survivors. But that will only be the first step in tackling the tremendous challenge of engineering the nation's recovery from the devastation, which also includes repairing social infrastructure and manufacturing facilities as well as helping the victims rebuild their shattered lives.

It is still difficult to estimate accurately the total damage and the cost of reconstruction, but our experiences in dealing with the aftermath of the 1995 Great Hanshin Earthquake, which ravaged the city of Kobe, offer some insight into what lies ahead.

Although a far wider range of areas has been affected by the March 11 mega-quake and subsequent tsunami, the total number of residents in the quake-hit areas is roughly the same as the comparative figure for the 1995 temblor.

The combined gross domestic product of the disaster areas in northeastern Japan is estimated at about 10 trillion yen (\$123 billion), compared with 8 trillion yen for the region struck by the Hanshin quake.

A total of 16 trillion yen was spent in 10 years by the central and local governments on rebuilding after the 1995 quake, with the maximum annual spending of 5 trillion yen made in the first year.

Japan's production capacity can easily meet the demand from rebuilding of this scale. Due to the economic downturn, Japan has excess capacity in manufacturing that could be used to crank out products worth an estimated 50 trillion yen in total.

What is critical is to capitalize on this production capacity effectively for reconstruction efforts. That requires keeping the nation's economic machinery running smoothly.

There is currently a strong mood of self-restraint among many Japanese, but slowing down economic activity now will only delay the nation's recovery from the disaster.

The current shortages of various products in the affected areas were caused by disruptions in transportation due to the damage inflicted on roads, ports and other components of infrastructure. The shortages will disappear before long. Since Japan has enough excess production capacity, cutting down on consumption in other parts of the nation would be of no help.

People and businesses in unaffected areas could help instead by continuing their usual activities and buying parts and finished products made in the Tohoku and northern Kanto regions as much as possible. A "Buy Tohoku" campaign would help create stable jobs and income sources in the quake-stricken region, making it easier for the people in these areas to rebuild their communities through their own labor. It would give greater, longer-term support to the reconstruction work than emergency donations.

For years there has been a lot of talk about Japan's economic decline. The primary cause of the decline has been a demand shortfall that creates excess supply capacity. This problem has required policy efforts to eliminate excess labor by creating jobs in areas where there is demand to meet. Now, however, there is demand in every area.

There is a long list of products that are urgently needed. The government has no good reason to hesitate to increase its spending.

The crushing calamity that has befallen many people in northeastern Japan has triggered outpourings of goodwill and a huge wave of donation campaigns nationwide. Local governments across the nation have started taking measures to

provide emergency aid for quake and tsunami victims, such as offering relief materials, evacuation centers and housing. Such outpourings of goodwill gives huge support for the survivors.

The nation's prolonged economic malaise had created emotional division among Japanese, as symbolized by the terms "the winning side" and "the losing side." But the national tragedy has spawned a widespread movement toward mutual help.

But there have been huge differences in the amount of donations per affected household made following various natural disasters in the past. According to a survey by Hyogo Prefecture, the total of money donated for people affected by the 1991 volcanic eruption of Mount Unzen-Fugendake in Nagasaki Prefecture was 32 million yen per household. The amount of donations for victims of the magnitude-7.8 earthquake off the southwestern coast of Hokkaido in 1993 was 25 million yen per household. But the comparative figure for survivors of the 1995 quake was far smaller, at 400,000 yen, far from enough to represent significant financial support for their struggle to rebuild their lives.

The data clearly shows that the government cannot count too much on people's goodwill to finance post-disaster rebuilding. The government should show leadership to translate people's goodwill into an effective national drive to ensure universal security across the nation. That way, there will be no such differences in the amounts of support provided to victims of various disasters irrespective of when and where they take place.

As for specific measures, the government should introduce a temporary new tax to finance rebuilding efforts with a term limit of five or so years and establish an agency devoted to dealing with the challenge during the same period.

The agency, to be staffed by officials from ministries and local governments, would provide maximum possible support for the rebuilding efforts of the people in the affected areas under integrated policymaking.

It would be important to make clear that the revenue from the new tax is used solely for recovery work. Creating a new agency is effective in this respect because it would be easier for an independent organization to disclose in detail how the money raised by the tax is actually used.

It would be reassuring for the public to know that a new tax designed to institutionalize their goodwill is used fairly and widely to finance post-quake rebuilding.

The funds should be used for a wide range of purposes, from repairing damaged infrastructure to helping put people's lives back in order.

Such rebuilding efforts would be beneficial not just for the quake-hit areas. but also for the entire Japanese economy in terms of both production and demand creation. There are a large number of makers of auto and electronics parts in the quake-hit region.

Setting a term limit for the measures is crucial for winning public support. This would make the new tax burden temporary like donations, make its objectives clear, prevent expansion of the bureaucracy and ensure that there will be no problem of managing reserves as is the case with pension funds.

Japan is prone to natural disasters like earthquakes and typhoons. The March 11 quake and tsunami offer many important lessons for all Japanese, both in urban and rural areas. That's why the disaster has generated such widespread attempts to help victims.

The above-mentioned system to capitalize on the new-found sense of solidarity among Japanese should be designed to kick in automatically when a large-scale natural disaster occurs. That would give a great sense of security to the public.

The social security system to support the nation's elderly population is, of course, important. But a security system to deal with damage caused by massive natural disasters is even more basically important.

Some people argue that a tax increase under such circumstances would have a negative impact on the economy. But the money raised by the tax would be used immediately to fund rebuilding. In other words, the money paid by taxpayers would all lead directly to new demand. If a new tax chokes the economy, large donations would do so, too.

Some people argue issuing fresh government bonds would be a better way to finance rebuilding than a tax raise. For taxpayers, however, financing the reconstruction with government bonds would only mean they will have to pay back the money with added interest in the future. Such debt-financing would not reduce the burden.

In addition, Japan, already saddled with a mountain of public debt, had to show the world a convincing fiscal reform plan for curbing government bond issuance in order to maintain its fiscal credibility.

At a time when a catastrophic quake is threatening to deepen international anxiety about Japan's economic health, issuing government bonds without a clear debt-servicing plan could trigger a crisis of confidence. Even if it is necessary to issue fresh government bonds for short-term financing, the government needs to establish a solid system to pay back the new debt in several years with revenue from the new levy.

Now that the disaster has violently reminded Japanese of their homeland's susceptibility to huge natural disasters, it is timely and vital to start building a powerful security system to deal with what such events could do to the nation.

Such a system would help turn Japan's great economic power into a sense of security among individual Japanese.

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