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Assessing the Economic Aftershocks of Japan’s March 11 Earthquake　日本の3. 11地震の経済的余波を評価する

R Taggart Murphy

Between 2012 and 2014 we posted a number of articles on contemporary affairs without giving them volume and issue numbers or dates. Often the date can be determined from internal evidence in the article, but sometimes not. We have decided retrospectively to list all of them as Volume 10, Issue 54 with a date of 2012 with the understanding that all were published between 2012 and 2014.

By R. Taggart Murphy -- Assessing the Economic Aftershocks of Japan’s March 11 Earthquake Stephen S. Roach warns us not to be complacent about the effects of the March 11 earthquake in Japan on the global economy. After outlining a “narrow view” based on a declining global profile for the Japanese economy – a shrinking percentage of both global exports and GDP, a rising China, and an irreplaceable position in only a handful of critical upstream industrial components – Roach urges us not to accept the “superficial” conclusions that might flow from this view: that Japan “doesn't really matter any more” and that disruptions to global economic activity from the March 11 earthquake and its aftermath will be “transitory” and “small.”

Roach points out that this “narrow view misses the most critical consideration” – that this latest shock comes at a time of global economic fragility. In particular, with interest rates worldwide at historic lows, the usual levers of monetary policy – interest rate cuts – are no longer available to central bankers to pump up growth. And “outsize fiscal deficits” suggest that fiscal stimulus may also be exhausted. That leaves policy makers with nothing but “untested” and “unconventional” measures such as the quantitative easing being implemented by the Federal Reserve – and, in the immediate wake of the earthquake, by the Bank of Japan.

Roach's fear – and he is hardly alone in this – is that the cumulative effect of these “unconventional” measures will be a collapse of confidence in fiat money of all types: dollars, yen, euros. As he writes, “the dreaded inflationary endgame suddenly looms as a real possibility” as households and businesses worldwide dump all monetary holdings in favor of anything solid: land, commodities, gold.

So far, there has been no sign of this in the markets – certainly with respect to Japan or the yen. Indeed, monetary authorities in Tokyo and abroad seem most concerned not over any flight from the yen but about the surge in the yen's value in dollar terms to postwar highs following the earthquake. Coordinated action by the world's major central banks on March 18 – the first such actions since 2000 – drove the yen back down to its pre-quake levels, but it's been climbing again this week. Given that Japan is going to need to buy hundreds of billions of dollars worth of commodities and manufactures from the rest of the world to rebuild its shattered northeast, it is not clear how cheapening the currency benefits the country.

But the surge clearly rattled policy makers, underscoring the fragility Roach discusses. Roach has an impressive track record of getting things right, so when he writes that "the Japanese economy has ... been on the leading edge of many of the more serious problems that have afflicted the global economy in recent years" and calls the country the "laboratory of our future" it is hard to disagree (indeed I concluded the same here). And when he concludes his piece by noting that the "more meaningful message" for the global economy of the catastrophe Japan has endured is "how these shocks box the rest of us into an even tighter corner" it is worth pondering the implications closely.

R. Taggart Murphy is Professor in the MBA Program at the Tokyo campus of Tsukuba University and a Coordinator of Japan Focus.

See also:

Andrew DeWit, The Earthquake in Japanese Energy Policy