

# Japan must address domestic concerns

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U.S. housing starts are widely expected to have fallen again in November after rebounding 3% in October amid the ongoing subprime mortgage problem. Turmoil in the U.S. residential housing market has spilled over to financial markets in the U.S. and Europe, and there are fears that it will significantly depress U.S. consumer spending in the near future. The U.S. Commerce Department is due to release housing starts data on Dec. 18.

U.S. home ownership has risen to unprecedented levels during the past 10 years, and the U.S. residential home market has grown at an unnaturally fast pace. Since subprime mortgages are extended to borrowers with low credit ratings, risks associated with them are spread among many. Because of this, some analysts theorize that the subprime woes will have a limited impact on the U.S. economy.

Depressed U.S. residential home prices have already started to attract buyers, according to some reports. U.S. and European financial institutions are moving quickly to clarify the size of projected losses on subprime-related investments and the needed write-downs. The real U.S. economy is performing unexpectedly well, as is shown by the latest employment data.

Some optimists maintain that thanks to the high growth posted by emerging economies like China and India, the Japanese economy will not slow even in the face of a U.S. downturn. Nevertheless, there

are questions over Japan's heavy dependence on exports.

Domestically, some shortsighted policies could unleash an unfortunate chain of events. Housing investment has been falling sharply since June, when the government began using stricter criteria for approving

construction applications. If the government tries to counteract this by sharply increasing public works spending in the budget for next fiscal year, it will drastically worsen long-term fiscal prospects. The government could even prevent itself from reaching its goal of achieving a

primary balance surplus by fiscal 2011. This could lead to more calls for a consumption tax hike, which will only dampen consumer spending.

This potential downward spiral and the recession it could trigger are bigger concerns than the subprime problem.