1. Background

This document is a synthesis of the main ideas and conclusions arising from the comparison of the financial crises in Japan and Spain, both of which began a period of depression that has been called a lost decade. In the case of Japan, this decade has lasted nearly 25 years. The aim of this reflection paper is to measure the severe impact of the two crises, not only on economic factors, but also, and especially, their social costs and the damage done to the political system. The Spain-Japan Dual Year (2013-14), which commemorates four centuries of bilateral relations, encourages the sharing of visions and experiences of the common challenges facing the two countries, which, as may be taken from this document, are both numerous and decisive.

2. The economic dimension of the financial crisis

a) Similar factors

- The bursting of a housing and stock market bubble nourished by financial deregulation and an excess of bad debt.
- Debt growth: because of its basis on the euro, the Spanish private sector has access to cheap credit and in only a decade its debt triples. As in Japan, this indebtedness is not incurred by the production sector, but by speculative investment. Two thirds of all private Spanish debt in this decade is in the construction sector.
- The explosion of the crisis directly affects the banking sector, which sees an increase in late payment and a reduction in real-estate asset value. Facing the risk of financial sector collapse, the government rescues the worst-affected banks. In both cases, partial measures (public capital injection, bad bank creation) are insufficient to reopen the credit tap. After years of “living dangerously”, banks become “risk averse” and radically contract credit.
- The fall in domestic consumption and family and business incomes results in reduced tax receipts and growth of the public deficit. This is primarily how private debt becomes public debt.
- This debt reaches 200% of Japan’s GDP and nearly 100% of Spain’s, and is a hindrance to future growth.
- Before the explosion, the crisis is fed by a feeling of collective euphoria, in which pessimistic visions are rejected and an economic “miracle” is spoken of, amid the conviction of living in a new economic paradigm.
- Audits of large businesses and financial institutions carried out later reveal numerous cases of mismanagement and concealment of bad results in the balance sheets.
- In both cases the crisis is systemic and requires deep, and in many cases, costly reforms for the politicians charged with carrying them out. This fact, added to the millstone of the debt, suggests a prolonged period tending towards stagnation.

b) Differences

- Both countries have a significant volume of debt, but while Japan’s is held in domestic hands, Spain’s is held abroad. Japan is, at the same time, a significant creditor of foreign debt.
- A key difference is Spain’s lack of the monetary policy autonomy with which to devalue its currency and make exports more attractive. Without this alternative, Spain is limited to taking action only on productivity, reducing labour costs (in-
ternal devaluation), lowering salaries, and/or reducing staff.

- In Japan, though the social cost of the crisis was highly significant (the price of land fell by a factor of 5; in Spain by 2), it was perhaps less visible. This was due partly to cultural factors and partly to the cushion of family savings absorbing some of the impact.

- In contrast to Japan, in times of crisis the Spanish economy forces large numbers of workers into unemployment (in November 2013 the rate was 26.7% of the general population and 57.6% of those under 26 years old), while at the height of Japanese unemployment (2002) it never rose above 5.4%, which in Spain would be considered more or less full employment.

- Japan’s low unemployment rate is partly explained by a consensus between the government and social actors to save jobs. However, it is also, in large part, due to the fact that 70% of women withdraw from the labour market when they have their first child, regardless of their level of education. Without this, it is possible that the unemployment rates of the two countries would be equivalent.

- Another distinguishing fact is that, on average, Japanese businesses are larger than Spanish ones, meaning that they seem to have greater financial muscle and are more integral to the economy.

- In contrast to Spain, Japan waited 10 years before acting on bad assets, understanding them to be consequences, not causes, of the crisis. This meant that they continued growing, dragging the overall asset value down.

- Another key difference is the welfare state model, which in Spain is public and of extensive coverage, while Japan has a public-private hybrid of only moderate coverage.

- In order to raise tax receipts, both countries have increased indirect taxation, but, even so, the levels of taxation are very different: in Spain, the general tax rate is 21%, while in April 2014 Japan’s will rise from 5% to 8%, having incurred the loss of a good deal of political capital.

- Japan has a more solid base for economic recovery, as its production sector has high technological value.

3. The political and social dimensions of the crisis

a) Similar factors

- In both cases, political decision-making is complicated by the necessity to act on many issues at once, and the fact that the solutions often generate new problems and come at high cost for the citizens.

- Because of this, both countries go through an initial phase of political paralysis. In Japan’s case, this lasts more than 10 years, while that of Spain is broken earlier by the insistence of the EU.

- The electoral timetable affects decision-making: public opinion volatility in Japan, added to the brief terms served by its prime ministers, leads to erratic policy-making, even within the same party. In Spain, the proximity of the 2011 elections means that decision-making is postponed and the second large-scale crisis begins. Political irresponsibility only worsens: successes have many parents and mistakes are born orphans.

- The same public powers add fuel to the idea— which remains true—that some of the causes of the crisis (and, therefore, those responsible for it) are beyond the reach of the state because they are transnational factors. Evading their responsibility, the government encourages the political disaffection of the citizens towards its institutions.

- In parallel, it is evident that in both countries the social structure has atomised and become more diffuse, weakening the ties of solidarity and impeding the identification of common interests.

- In the face of this fragmentation, nationalism is one of the last effective instruments left in the hands of the state for bringing citizens together around the weakened political institutions, and comes strongly into play in both cases.

- The level of education, especially of adult workers, acts as a lifeline for dealing with the crisis. In both cases, businesses stop taking on young graduates: in Japan this leaves them limited to low-skilled jobs, while in Spain they opt to move abroad in large numbers.

- The ageing population is another common challenge, and the attributes of the two demographic pyramids are very similar: the apexes of the pyramids were decimated by war, while the baby boom generations, now still adults, advance on old age.

b) Differences

- One of the most significant differences between the two countries is in immigration policy. From 2000 on, Spain encouraged the arrival, on demand, of an unqualified foreign workforce who took up jobs, mainly, in the construction, agriculture and service sectors. Between 1996 and 2009, the immigrant population of Spain grew from 3% to 14% of the total. This group has been hit hard by the crisis due to having less or no support from a family network.

- The same phenomenon also explains, in part, Spain’s difficulty in raising the average level of education. But the Spanish education system has demonstrated a notable capacity for the integration of newcomers, which is still unknown in Japan.

- Since the crisis, Spain has become a country of net emigration, whether that is the newly nationalised returning to their countries or moving within the EU, or highly-qualified young nationals who emigrate to work abroad. Both phenomena are uncommon in Japan.

- The Castilian Spanish language is a comparative advantage for Spain, allowing it to maintain a link with Latin America and the Hispanic community in the USA.

- For various reasons, some of them cultural, the expression of the conflict in civil society has been less visible in Japan than in Spain, where demonstrations have proliferated along with open criticism of the political class and parties. In today’s Japan, the alienation is more cynical, even among loyal party voters.

- If we focus on how geographical context affects national policy, it is noticeable that Spain’s integration in the European Union gives it a regional institutional framework, which tends towards integration. Japan, by contrast, has a central relationship with the USA (outside the regional framework), while its relations with its neighbours are competitive and have little institutional foundation; this is especially true in the case of China.
4. Conclusions and lines of future exploration

Based on the similarities and differences of the two countries, it is possible to draw a series of conclusions:

1. Japan and Spain share key common challenges for the future, deriving from their recent pasts, from political and economic transformation, and the explosion of a systemic financial crisis, which should initiate a process of reflection capable of identifying causes and building defences against new crises.

2. The comparative analysis shows that an explanation of the bubble based solely on low interest rates is insufficient, as demonstrated by the fact that rates in Japan have been low for the past 20 years. Far from automatic triggers, other contributing factors have been identified: financial deregulation, the atmosphere of credit euphoria, the connivance of politicians, financiers and citizens, and the massive reorientation of investment from the production to the speculative economy.

3. In Japan, as in Spain, the fiscal system is increasingly dualised. On the one hand, indirect taxes—which are less visible and are neutral for the purposes of international trade—are proliferating. On the other, direct taxes are targeting employment income over capital income, which is easily relocated.

4. Debt is a millstone hindering the future growth of the economy, and, in some ways, it has the same effect on democracy, in the sense that it mortgages future generations who have no say over current decision-making. Despite the fact that this problem is common to both countries, Japan balances its debts by being, at the same time, the world’s largest creditor.

5. The training of human capital is important in mitigating the chrematistic behaviour of the Spanish labour market. It increases the competitiveness of the foreign sector, boosts productivity and the capacity to innovate and produce goods of high added value.

6. Nevertheless, it is clear that training is not everything. In Spain, as in Japan, there is a growing imbalance between the investment in education made by new generations of professionals, and the reward they are offered by the labour market. In Spain, many of these young people are supported by their linguistic abilities and/or by the European market, where they look for better opportunities.

7. Spain’s membership of the EU and the single currency is double-edged: entering the euro released the credit flow that inflated the bubble, but it was national political and financial actors who removed the brakes and jumped aboard the finance roller coaster. It is because of the single currency that Spain cannot devalue and make exports more attractive, and further, it is the European regulator who imposes austerity measures of enormous social and political cost. But when compared with Japan, it seems clear that the EU has streamlined decision-making and avoided the more than probable paralysis of political leaders. And it seems certain to be the EU who will buttress the guarantees and controls of economic policy that are necessary to avoid future crises. Today’s transnational private interests demand transnational controls, which in Europe pass through EU institutions.

8. Demographic projections predict that in the next 30 years the proportion of the Spanish population aged over 65 will double (from 17% to 34%), while the number of those of working age (between 16 and 64 years old) will reduce from 30 to 22 million. Pressure on social security mechanisms will only increase, unless there is an increase in birth rate, or new immigrant workers arrive to enlarge the population making contributions.

9. The desire to subordinate political institutions to the free market, presented as a “neutral” environment, which is self-regulating and in some way irresistible, is questioned by the current financial crisis. The state is still the only parameter from which the citizen can defend their own interests against transnational and non-representative ones.

10. The current crisis is perhaps that which has most severely impacted the political and constitutional system of its time, damaging the link between society and politics, and threatening to put an end to the social contract as it was originally conceived upon the fall of absolutism. The social consensus is much greater in Japan than in Spain.

11. Historical study of economic crises shows that the key factors for recovery are: a) the quality of institutions; b) the knowledge of the particular society and its most urgent needs; and, c) the effective understanding of the causes of the crisis. Applied to the current situation, only the third of these conditions seems to be in place.

12. While it is certain that we often complain about generalised disaffection, the reality is that often the political class faithfully reflects the society that it represents. Too often, irresponsible politicians reflect irresponsible citizens.

13. In this context, and, in a trend that is common to many current technological advances, we are sacrificing quality for quantity and find ourselves inundated by an enormous mosaic of details from which it is difficult to assemble the information, and nearly impossible to gain knowledge.

14. Even in Spain’s case, the growing number of public demonstrations tells us more about the fragmentation of social movements than their capacity to exert real pressure. New means of mass communication, advances in ICT, and the proliferation of social networks influence not only the message and the channels of communication, but, increasingly, the mechanisms by which individuals make decisions.

15. In Spain, the competition between the government and opposition has fuelled most of the large-scale public demonstrations (against terrorism, against war, in defence of the family), which, since 2007, have uncoupled from party-based logic and fallen into alternative movements or citizens’ platforms. In Japan, on the other hand, the hegemony of the Liberal Party is a reflection of the dearth of alternatives and the difficulty of opposing the government, while far-left groups and trades unions have lost mobilising capability. Principally, it is the radioactivists who take to the street to oppose nuclear power stations.

16. There is good reason to suspect that the lessons of the crisis have not yet been learned. One example of this is the fact that the public sector is leading the jobs recovery in Spain at a time when reducing the public deficit is a priority.

17. It seems that, in the medium term, Japan will have to engage in a serious debate about its immigration policy, to which Spain might be able to contribute its direct experience. In the short term, it seems that the palliative solutions sought will be to prolong the working life of those in good health, and increase the entrance of women to the labour market.
5. Recommendations

1. It should be borne in mind that cleaning up the banks is only a partial cure for the financial crisis. Once the damage is contained, it will be necessary to take measures to reopen access to credit to the real economy.

2. Beyond economic measures, both countries must enact deep structural reforms: tax reform, revising government benefits, and streamlining administrations.

3. Concerning fiscal policy in Spain, where the rates are already fairly high, the taxable base should be expanded, maximising the number of contributors and making evasion more costly. Selective contributions should also be introduced.

4. Both Spain and Japan will have to hold a national debate on revising the policy of subsidies and benefits, which is under pressure from the stagnation of the economy and the ageing of the population. The principle of universality may have to be questioned, along the lines of introducing more selective criteria to strengthen progressiveness.

5. In Spain, austerity has taken its toll on society, both physically and psychologically. However, in contrast to what has happened in the rest of the economies of southern Europe, the macroeconomic situation does not seem greatly changed. It is constantly necessary to evaluate the effects of policies imposed, and, if required, to be agile in their reorientation.

6. In this regard, the depth of the reforms required means that they should be opened up to public debate, in order to secure the maximum possible consensus between social actors and political representatives. It is necessary to reforge a social contract that legitimises political democratic authority.

7. Mindful that inequality and poverty is growing in both countries, the principles of social justice and solidarity among citizens should be safeguarded: this means making a commitment to the training of human capital, guaranteeing access to quality education, which, as much in Spain as in Japan, is a powerful tool for promoting social equality.

8. The exchange of experiences between Japan and Spain in the field of migration policy and its social and political impact should be encouraged. Demographic convergence and the nature of the challenges facing both countries produce the need for sustained exchange of experiences and good practices.

9. There is also significant complementarity in relation to the engagement of both countries with their geographical areas of influence: Spain can offer Japan its knowledge and key role in the Mediterranean and Latin America, and Japan can offer Spain its relationships and positioning in the Pacific.

10. CIDOB will seek to collaborate with Japanese institutes in order to cement and strengthen these points of mutual interest.