

opinion

The Japan Times

Established 1897

Incorporating The Japan Advertiser 1890-1940  
The Japan Chronicle 1868-1940  
The Japan Mail 1870-1918  
The Japan Times 1865-1870

owned and published daily by  
The Japan Times, Ltd.

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EDITORIAL

Inadequate financial plan

The Abe Cabinet on Aug. 8 endorsed a medium-term financial reconstruction program. But the program is not adequate in presenting concrete measures designed to restore health to Japan’s financial conditions. The central government’s accumulated debts topped ¥1,000 trillion and reached ¥1,008 trillion as of the end of June, twice the nation’s gross domestic product. The International Monetary Fund (IMF) estimates that the debts will climb to a level close to 2.5 times the nation’s GDP by the end of 2013. The government needs to present a concrete path toward financial reconstruction, with firm commitment to eradicating wasteful use of public money. The financial reconstruction program calls for halving the deficit in the primary balance of the central and local governments by the end of fiscal 2015 and reducing the deficit to zero by the end of fiscal 2020. The primary balance is obtained by subtracting debt services costs from revenues — excluding revenues from bond issuance. The program means that the central government must improve the balance in its budget by ¥4 trillion each in fiscal 2014 and fiscal 2015. The amount of bond issuance must be lower than in the previous fiscal year. The program does not include concrete measures that the government will take to halve the deficit in the primary balance. Furthermore the government admits that even if Japan’s economy continues to grow 3 percent in nominal terms, it will be difficult to

reduce the deficit to zero in fiscal 2020. Means to improve the health of Japan’s state coffers include tax increases and spending cuts. But the financial reconstruction program has an uncertain factor. At this stage, the government has not decided what to do with a plan to raise the consumption tax rate from the current 5 percent to 8 percent from April 2014. It plans to make a decision on whether to go ahead with the plan as scheduled or to postpone it around October. The IMF thinks that the Japanese government should raise the consumption tax as originally planned. A second round of the consumption tax raise, which will increase the tax rate to 10 percent, is scheduled to take place in October 2015. The problem is that the government is lax in restraining spending. Instead of using a surplus of ¥1.3 trillion from the fiscal 2012 budget to redeem bonds, for example, it will use it in a supplementary budget for fiscal 2013. The guideline for budget requests for fiscal 2014 calls for a reduction of some 10 percent from the initial fiscal 2013 budget in discretionary expenditures, including public works spending. But it sets aside ¥3.5 trillion for special projects for economic growth and for anti-disaster and other priority projects. It also sets no ceiling for requests related to reconstruction related to the 3/11 disasters. The government must be serious in working out concrete steps designed to achieve the difficult task of achieving both financial reconstruction and steadfast economic recovery.

‘Big data’ becoming big business

The phrase “big data” often appears in newspapers and magazines these days. It refers to extremely large amounts of data that are being sent from personal computers, smartphones, car navigation systems, IC cards, etc., and then stored in massive data centers. The progress of information technology has made it possible to both store and analyze huge amounts of data and the costs of doing so is steadily dropping as technology advances. As a result, companies are increasingly utilizing big data to expand their sales. For example, it is possible to identify the gender and age of people and what they buy using electronic money via their smartphones, debit cards, etc. Analyzed data provide corporations with significant clues regarding the needs and tastes of consumers. They can then develop new products and services to meet these needs and increase their business profits. It is also expected that such data can be used for medicine and agriculture. Information-technology companies believe that the use of big data will bring great changes to various industries. But a major problem is the thorny issue of how to utilize this data while protecting people’s privacy. Analysis of statements made in social media, for example, make it possible to find out what kinds of opinions people have about particular issues and what kinds of things interest them. The results of such analyses can be used for business purposes as well as election campaigns. In weather forecasts, weather changes are predicted by analyzing

a large amount of numeric data sent from weather satellites and other sources. Some weather information companies are trying to improve their forecast accuracy by utilizing information sent from their associate members’ mobile phones. The white paper on information and communication, made public in July by the Internal Affairs and Communications Ministry, estimates that if big data accumulated in the nation were fully utilized, it would create economic benefits worth ¥7.7 trillion a year through business cost reductions, increased sales, and a reduction of traffic congestion. The ministry analyzed the situation for the retail industry, manufacturing industry, agriculture, and the infrastructure industry, including expressways. Use of big data has the potential to cause serious social problems. Storing and analyzing a large amount of information raises the very real possibility that people’s privacy could be infringed upon. Data containing not only people’s shopping history, but their financial status and even health history as well could be exploited by entities in both the private and public sector. Recently East Japan Railway (JR Higashi Nihon) admitted that it had sold records of its prepaid Suica e-money and train-pass cards to business firms. It is imperative that rules be established to ensure that the companies concerned will properly handle personal information stored in their computer systems. The government should consider passing a law prohibits the commodification of data derived from e-money transactions without consumers’ knowledge and consent.

THE GLOBAL PERSPECTIVES

Japan’s military comeback

BYODO

Previous presidents of South Korea used Aug. 15 as an opportunity to send diplomatic messages to North Korea and Japan. President Park Geun-hye also made the most of her first chance to do this on Thursday — quite successfully — by extending a helping hand to Pyongyang and repeating her calls for Tokyo to courageously face up to historical truth. Some people think President Park could have been sterner and more specific when rebuking the Japanese government’s unrepentant, regressive stances and policies in her address. But action always speaks much louder than words, and the rest will be up to diplomats. Most worrisome in this regard is Japan’s military resurgence. Prime Minister Shinzo Abe and his Cabinet are now going far beyond publicly honoring war criminals and denying involvement in sexual slavery of foreign women by the Imperial Japanese

military. They are now moving to revive the militarist Japan by turning its Self-Defense Forces to a regular army and exercising their right to collective self-defense. According to the Japanese media, Japan’s Air Self-Defense Force took part in training to provide cover and support for U.S. B-52 strategic bombers over Alaska last year. Before then, Japan’s use of its right to collective self-defense had been mainly limited to logistic support and disaster relief from Marine Self-Defense Force as part of U.S.-Japan joint drills or multilateral military exercises. The Japanese planes’ escort of the U.S. bombers, which are equipped with strategic nuclear attack weapons, clearly overstepped Japan’s postwar principle of merely maintaining a defensive posture, blurring the line between an offensive and defensive force. Even more astonishing is Tokyo’s push to cite possible military conflicts on the Korean Peninsula as an example for its right to collective self-defense, even without

consulting Seoul. Foreign Ministry officials here may be right to refrain from commenting on what are still media reports, but Korean diplomats should confirm their authenticity to their Japanese counterparts and, if proved true, tell Tokyo to stop violating diplomatic rules. Japanese troops’ landing on this peninsula again is every Korean’s nightmare. The real problem is that Japan’s attempt to revive its military is in keeping with a U.S. strategy to check a rising China. Even some Southeast Asian countries, wary of the increasingly hegemonic Middle Kingdom, are welcoming Japan’s military advance as a counterbalance, leaving only Beijing and Seoul as strange bedfellows in this matter. Japan is the world’s sixth-largest military spender even though it reduced defense outlays because of its prolonged economic slump. It will only be a matter of time before Tokyo returns to its prewar state, militarily and psychologically. The Korea Times, Seoul (Aug. 16)

Understanding the NSA’s errors

THE WASHINGTON POST

“We’re a human-run agency operating in a complex environment with a number of different regulatory regimes, so at times we find ourselves on the wrong side of the line.” That’s how one senior National Security Agency (NSA) official defended his outfit to The Washington Post. It’s also what’s been making many people nervous about recent reports on the organization’s vast capabilities to collect information about people’s lives. Even if analysts don’t abuse their tools, mistakes happen. The Obama administration has repeatedly assured the public that procedures are in place to limit the NSA’s use of its extraordinary powers, and it even admitted in recently-declassified documents that occasional errors happen. But, until now, the public simply didn’t have a firm sense of how often the process failed. On Friday, The Post published an

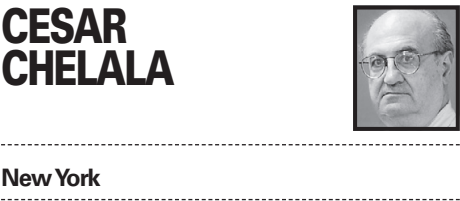
internal intelligence oversight report detailing “incidents” in which the agency failed to comply with the various restrictions on its massive information-gathering operation. Over a year’s span in 2011 and 2012, NSA employees violated the rules at least 2,776 times. About a tenth of the violations involved typographical errors. Many more involved user errors such as “inaccurate or insufficient research,” “failure to follow standard operating procedures” and “training issues.” Automated error detection systems caught a lot of these problems. But sometimes technical systems themselves also led to violations. In one case, the NSA collected U.S. and foreign e-mails in a way its judicial overseers called “deficient on statutory and constitutional grounds.” On Friday, NSA Director of Compliance John DeLong offered some context. The NSA, for example, queries its various databases millions of times per month, he

reported. And, he insisted, willful abuse of the NSA’s systems is almost nonexistent. Still, even a very-low incident rate can cause discomfort when there is so much the agency can sift through. At the least, the NSA must be more transparent in its error reporting. It doesn’t need to provide properly classified operational details in order to admit that it messes up. The audit The Post published not only discloses the raw number of violations in the period it covers, but also breaks down those violations by the legal authorities under which the NSA’s reviews were supposed to take place, such as the Foreign Intelligence Surveillance Act. It’s no secret these authorities exist, so why not do the same regularly, and in public? The agency could also release information on the types of violations it’s seeing — user or systems — and how it caught them. There’s nothing dangerous about any of that. (Aug. 18)

Stephan Richter  
Washington  
THE GLOBALIST

As the U.S. political debate about selecting the next Fed Chairman meanders on, there is an important tale to be told about the lack of compassion that so characterized Larry Summers, one of the two leading candidates for the job. The contrast to fellow contender Janet Yellen could not be greater. Case in point: the 2012 Aspen Ideas Festival, which prominently featured two Harvard professors as speakers during its always impressive range of panels. To see the contrast, let us start with a discussion at the festival with a different Harvard professor, Robert Putnam, a famous author and sociologist, who is not a former Harvard president. At some point in that conversation, Putnam, who wrote the book “Bowling Alone,” couldn’t contain himself anymore: “The only way we are going to solve this problem is by considering all children in America as our children.” By that, he effectively meant that all children growing up in the United States, whether white, black, Hispanic or other, should be seen as members of our own families.

What was the reason for his emphatic and heartfelt call? Definitely not a bout of naive do-goodism. In fact, the preceding discussion at the 2012 Aspen Ideas Festival had been about how the economic misery that was long thought to be largely restricted to black Americans has spread, to the point where it has fully gripped the white working class just as much as the African-American one. The numbers are truly depressing. Even in the mid-2000s, before the recession, 47 percent of children living in America’s 50 biggest cities did not finish high-school. And 22 percent of all children growing up in America today live in poverty. The poverty numbers for children of single mothers, often left without financial support by the men who fathered their children, are significantly higher. As a result of broken homes, broken or rather non-existent families, parental drug use, alcoholism and boredom, fully one-third of the future U.S. workforce is expected to be dysfunctional in terms of having skills usable in the workplace. They are basically unemployable because circumstance has rendered them incapable of holding down a job. After all, even jobs requiring only low levels of qualification do require a functional attitude toward work and a basic work ethic. Such social and economic destitution was once thought to be the preserve of African-American urban ghettos. Such despair, in Americans’ eyes, were otherwise just to be found in some Soviet cities, in the provinces far away from Moscow. However, this syndrome has now penetrated America’s core. Suburban poverty grew twice as fast as urban poverty from 2000 to 2010, and a majority of metropolitan area poor now live in suburbia. In many small towns in the Midwest, virtually all the manufacturing jobs, and the local jobs supported by them, are gone.



New York

As Hassan Rouhani, Iran’s new president, called on renewed dialogue to deal with the uranium-enrichment program, there are concerns that his approach will not be met by the United States. If this occurs, another important opportunity will have been missed with Iran, increasing the chances of confrontation. “If you seek a suitable answer, speak to Iran through the language of respect, not through the language of sanctions,” said Rouhani. The naming of Mohammad Javad Zarif as his foreign minister suggests the new president’s intention to break the 34-year stalemate between the Islamic Republic and the U.S. As stated in the memoirs of former U.N. envoy Giandomenico Picco, Zarif, a graduate of the University of Denver in international law and policy, was involved in negotiations to win the release of U.S. hostages held by pro-Iranian gunmen in Lebanon. Zarif’s academic credentials are impeccable, and he has written extensively on human rights, international law and regional conflicts. Although he must still be confirmed by the Iranian Parliament with a vote of confidence, his selection sounds like a promising note. It shows, according to Flynt Leverett, an Iran expert and author of “Going to Tehran,” that “Iran is serious.” Sanctions so far have hurt not only the Iranian government but the Iranian people

In political terms this means that the convenient, decades-old (if not centuries-old) problem-shifting mechanisms no longer apply. In the past, leaders could assert or vaguely imply that we do not really need to care about poor African-Americans because they are the members of a different race and thus can’t be helped (“tough luck” for them). Now, white Americans increasingly face the same social and economic afflictions. While institutionalized racism still certainly affects minorities’ prospects, purported racial differences are no longer a plausible way to explain away all social and economic ills of non-white Americans. In fact, that argument detracts from tackling broader economic issues. The problems unraveling the social fabric of U.S. society can no longer be relegated to being solely a stubborn consequence of slavery, as they now cut across more than

public perception. In fact, the U.S. tax code stands out as one of the least effective among developed countries when it comes to transferring needed financial resources to poor people to lift them out of poverty and help them become productive members of society. One would have thought that the speaker — who was, after all, a former U.S. Treasury secretary during the Clinton Administration and top White House advisor under President Barack Obama — would have pointed out those facts. They are well-known even to people lacking Summers’ eminent pedigree as an academic economist. Not so. Instead, he throws the audience some lumps. There is some evidence in the economics literature, he says, that people are more willing to pay state taxes, because they have a more direct sense of those monies being spent on them, and not “others.”

As a result of broken homes, broken or rather non-existent families, parental drug use, alcoholism and boredom, fully one-third of the future U.S. workforce is expected to be dysfunctional in terms of having skills usable in the workplace.

one demographic. Later on during the same festival, another Harvard professor took the stage. This time, it is Harvard’s former president, Larry Summers. The interviewer does his best to sensitize Summers to the rather desperate state of affairs encountered by ever-larger shares of Americans. In his classic style, between sparks of intellectual brilliance and displays of utter disdain and bottomless arrogance (never mind a lack of social consciousness), Summers explains why higher taxes can’t be part of the solution in the U.S. “You see, in Sweden, people are ready to pay higher taxes. There is a simple reason for this. All the people living in Sweden are ... so Swedish,” he says, with a well-calculated effect to generate laughter from the large audience. Then he goes on to explain that we here in the U.S. are different. Our population is ethnically very diverse. The logical conclusion? Any time Americans are called upon to spend more in taxes, they have a sense that those monies are expended not on “us,” but on “them.” They feel they get a raw deal. That, the professor concludes, rather nonchalantly, makes it harder to deal with the problem. And indeed, there is considerable truth to that. There is a sense in the American electorate, well-engineered by Fox News and others, that has too many people thinking that “our” taxes are just used to fund food stamps for African-Americans (and a few whites who “must” not be working hard enough), Medicaid and foreign aid. The reality, of course, is very different. The true figures are far removed from the

Why that should be so is left unexplained — and is hard to believe. The same convenient mechanism to demonize others as lazy and only oneself as deserving of tax benefits works at the state level the same way it does on the federal level. All in all, the audience is regaled to a classic Summers performance. He tends to speak with no compassion for others at all and instead exhibits the callousness of the head of a major private banking operation. He is eager to ingratiate himself with his audience in order to preserve the aura of collective superiority between himself and the audience. There is just one problem: It is hard to imagine any private bankers being so callous and socially unconscionable as the former Harvard president. Impossible to imagine that this man was a top-level policymaker who served in two Democratic (!) administrations. Nobody knows whether Summers’ curious mixture of diffidence and disdain is due to the fact that he has managed to use his intellectual brilliance to make himself part of the 1 percent class. Thankfully, his attitude is not representative of the Harvard faculty body at large. As his colleague Bob Putnam made clear, it is entirely possible to pair a high IQ with a social conscience and articulating the courage of one’s real convictions for society to do better, much better lest calamity hit.

Stephan Richter is the publisher and editor in chief of The Globalist. The Globalist combines cutting-edge analysis with first-rate storytelling to cover the most important developments shaping the global economy, politics and culture. © 2013, The Globalist

Will this be another lost opportunity with Iran?

as well. According to Kenneth Katzman, author of a Congressional Research Service report titled “Iran Sanctions,” sanctions on Iran have considerably harmed the country’s economy but also led to some unintended consequences such as a shortage of some state-of-the-art Western medicines. According to Katzman, Iran’s oil exports have declined to about 1.25 million barrels, which represent 50 percent less than the amount exported by Iran in 2011. This dramatic reduction is expected to deprive the Iranian government of over \$50 million in revenue for all of 2013. An International Monetary Fund global report from April 2013 states that Iran’s economy has shrunk 1.9 percent from March 2012 to March 2013, and will probably shrink a bit less during the subsequent one year period. Sanctions have provoked the country’s first gross domestic product contraction in two decades. As a result of lost revenues from oil and Iran’s isolation from the international banking system, the rial, Iran’s currency, has dropped significantly in value and caused a steep increase in inflation. Only since Rouhani’s election has the rial gained back some of its value. The currency collapse has led to a depletion of its hard currency reserves, since hard currency is needed to support the value of the rial. Some experts estimate that the reserves probably fell below \$90 billion at the end of 2012. At the same time, inflation reached 45 percent in late July, and industrial production — particularly of those items that depend on foreign imports — has been curtailed. Paradoxically sanctions have led to a significant increase in the volume of

bilateral trade between Iran and China, and increased China’s sphere of influence. Some experts argue that sanctions may benefit Iran in the long run, since they have compelled the country to diversify its economy and reduce its dependence on oil revenues. As a result, the new 2013-2014 budget relies more on the country’s exports of minerals, cement, urea fertilizer and other basic industrial goods. In addition, as the Congressional Research Service Report has indicated, sanctions on Iran “have harmed the economy, but not to the point where key Iranian leaders have been compelled to reach a compromise with the international community on Iran’s nuclear program.” The White House sounded optimistic when it declared, “Should this new government choose to engage substantially and seriously to meet its international obligations and find a peaceful solution to this issue it will find a willing partner in the United States.” This statement, however, didn’t find an echo in a group of U.S. senators. In a letter addressed to President Barack Obama, 76 senators wrote, “Until we see a significant slowdown of Iran’s nuclear activities, we believe our nation must toughen sanctions and reinforce the credibility of our option to use military force at the same time as we fully explore a diplomatic solution to our dispute with Iran.” This statement, coming shortly after the election of Rouhani, considered a moderate among Iranian leaders, is at best unfortunate and, at worst, deplorable. Dr. Cesar Chelala is a co-winner of an Overseas Press Club of America award.