Japan under growing international pressure for austerity measures

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The International Monetary Fund (IMF) last week again called on the Japanese government to rein in public spending to address its spiralling debt. Prime Minister Nanto Kan is also preparing to increase the consumption tax this year, despite the risk of public opposition of the kind that erupted in response to austerity measures in Greece, Spain and France.

The IMF named the US and Japan as the two biggest economies in the G-7 that needed to slash public spending, or their bonds would be dumped by investors. “In advanced economies where fiscal sustainability has not been a market concern, credible plans going well beyond 2011 need to be put in place urgently to lock in benevolent market sentiment,” the IMF declared in its “Fiscal Monitor” report.

The IMF’s warning came six months after it called on Japan to triple the consumption tax from 5 percent to 15 percent, in order to tackle the country’s huge public debt. According to the Organisation for Economic Co-operation and Development (OECD), Japan’s national debt will hit 204 percent of gross domestic product (GDP) this year.

In a further sign of concern in international financial circles, the rating agency Standard and Poor’s (S&P) last week cut Japan’s long-term debt rating to AA- from AA, three levels below the highest AAA credit rating. The downgrade, which will push up Japan’s borrowing rates, was S&P’s first downgrade of Japanese long-term debt since 2002.

The S&P said the ruling Democratic Party of Japan (DPJ) had “no coherent strategy” to address rising debt levels. It expected that Japan’s national debt would continue to rise until the middle of the decade, “unless a significant fiscal consolidation program is implemented beforehand”.

Over the past two years, tax revenues have failed to fund even half of public spending. The government has compounded the problems by cutting the corporate tax rate by 5 percentage points to 35 percent, causing an immediate revenue loss of 1.4 trillion yen in 2011. Only 41 trillion yen ($US494 billion) in tax revenue is expected this fiscal year, for a budget of 92 trillion yen.

Like a number of European governments, the DPJ government will have to reduce the budget deficit by slashing public sector jobs and social welfare and, above all, by taxing the working class. Although 95.4 percent of Japan’s debt is held domestically and it has external assets of 225 trillion yen, the banks and big business are demanding that the government act just as ruthlessly as its counterparts in Europe.

Prime Minister Kan carried out a cabinet reshuffle on January 14, in part to bring forward an austerity policy. “Japan is mired in a severe [debt] crisis now. I reshuffled the cabinet so that it will have maximum strength to overcome the crisis,” he declared. The plan is to work out a concrete program to impose the tax burden and spending cut on the population by June in the name of “reform”.

Kan has appointed Kaoru Yosano, a strong advocate of an increased consumption tax, as minister of economic and fiscal policy and minister for social security reform. Yosano quit the opposition Liberal Democratic Party (LDP) last April to form the small opposition Sunrise Party, which he left last month to join the DPJ.

As finance minister in the previous LDP government, Yosano authored a book *The Democratic Party Will Destroy the Japanese Economy*, attacking the DPJ's 2009 election promises to increase social spending. After being appointed by Kan, he declared: "International confidence in Japan could be lost if we don't address the situation in which bond issuances cover expenses that exceed tax revenue."

The opposition LDP has refused to hold discussions with the DPJ until the government presents its social welfare and tax reform plans in June. LDP pressure for greater spending cuts could create a major political crisis as the DPJ no longer controls the upper house and lacks the two-third majority in the lower house needed to override an upper house veto.

Kan has set a target of the end of the fiscal year 2020 to achieve a budget surplus, excluding the huge debt servicing costs. A government economic forecast published on January 22 calculated that the consumption tax would have to be increased to more than 14 percent just to reduce the budget deficit from current 6.5 percent to 4.2 percent in 2020—assuming a growth rate of 1.5 percent.

The highly unpopular consumption tax was first introduced in Japan in 1989 at a rate of 3 percent to fund increasing social security spending, in particular pension liabilities. It was raised to 5 percent in 1997, amid mounting government debt from a series of stimulus packages put in place to try to boost the stagnant economy.

Any increase in the consumption tax will fall heavily on the working class, especially millions of young low-paid, casualised workers. Wages have not risen over the past two decades and many workers have lost the security of life-long employment.

Kan's plan to double the consumption tax to 10 percent was a major factor behind the DPJ losing its majority in the upper house in last July's elections. Kan's public support rating has plummeted from around 70 percent after coming to office last June, following the resignation of former prime minister Yukio Hatoyama, to under 30 percent.

In a policy address to the Diet last week, Kan declared that to cut the government debt, "I believe I cannot avoid asking the public to bear the burden to some extent." Big business, however, regards the doubling of the consumption tax as insufficient. Japan Association of Corporate Executives chairman Masamitsu Sajurai has called for the tax to be tripled to 17 percent within 6 years—in line with IMF's demand.

Kan used the savage restructuring of Japan Airlines (JAL) last year to justify his call for sacrifice. After meeting with the JAL chairman Kazuo Inamori on January 19, Kan told reporters: "I believe Japan is in an enormous crisis comparable to JAL one year ago. We must also change our attitude and renew our determination to reinvigorate the country."

JAL went from a 96 billion yen loss in 2009 to record a third quarter operating profit of 110 billion yen ($1.3 billion) in 2010. The result was achieved by cutting overseas routes and aircraft numbers—eliminating 14,500 jobs.

A massive destruction of jobs and dramatic lowering of living standards for millions of workers is being prepared in Japan this year. Such a development must inevitably propel the Japanese working class into social struggle, following the steps of their class brothers and sisters in Europe, the Middle East and other parts of the world.