Credit rating agencies press Japan for budget austerity

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Japan might not face the same immediate financial crisis as Greece or Portugal. Nevertheless, the international credit rating agencies have begun circling the world's third largest economy and pressing for fiscal rectitude amid the devastation wrought by the March 11 earthquake and tsunami.

Standard and Poor's (S&P) last week lowered its outlook for Japan's sovereign rating to negative, signalling a possible future downgrade if the government failed to rein in the country's huge public debt. The International Monetary Fund estimates that gross government debt will hit 229 percent of gross domestic product (GDP) this year—the highest level of any industrialised economy.

In making its announcement, S&P specifically targeted the budget deficit, expressing concern that it would exceed the previous forecast of 3.7 percent of GDP as a result of government spending in response to the quake disaster. S&P put reconstruction costs at 20 to 50 trillion yen ($US245 to $613 billion). The higher figure is twice the Japanese government's estimate.

S&P cut Japan's sovereign debt rating in January for the first time in nine years, reducing it to AA-minus, citing similar concerns about the country's high debt to GDP ratio. A month later, Moody's revised its outlook for Japan downward from stable to negative, expressing disappointment with the government's plans to reduce the budget deficit.

Unlike countries such as Greece and Portugal, Japan's public debt is financed domestically, not through foreign loans. Nevertheless, even though the country is not as directly vulnerable to the demands of international finance capital, business circles in Japan and globally regard its debt levels as unsustainable.

The S&P announcement came just before the government's first supplementary budget for disaster relief was presented to the Japanese Diet or parliament. No one was in any doubt as to the credit rating agency's intention. Economist Takuji Okubo told Reuters: "This will put more pressure on the Japanese government about revenue enhancement and ... will push the Japanese government into raising the consumption tax next April."

The initial emergency budget of 4 trillion yen ($US49 billion) passed the lower house of the Diet last Saturday and the upper house on Monday. In the upper house, the ruling Democratic Party of Japan (DPJ) does not have a majority and relied on the backing of the opposition Liberal Democratic Party (LDP).

In a signal to the financial markets, the supplementary budget involved no new government borrowing. It was financed from the country's pension funds, plus money originally allocated to finance the DPJ's election pledges on child allowances and motorway tolls.

Additional disaster budgets are likely to run into opposition from the LDP, which is insisting that Prime Minister Naoto Kan slash social spending and raise the country's unpopular consumption tax higher than proposed by the Democrats. Kan has indicated that the next round of reconstruction spending would involve public borrowing—a move that would provoke more criticism in financial circles.

Kan's government already confronts public distrust and hostility over its handling of the disaster, particularly the ongoing crisis at the Fukushima Dai-ichi nuclear plant. An *Asahi Shimbun* poll released on Monday found that 55 percent of respondents had low expectations of the government's reconstruction efforts. As the government imposes the burden of the disaster through tax increases and spending cuts, its popularity can only slump further.

Kan is under pressure from the LDP and from within his own DPJ to step aside. Yesterday, inner-party rival Ichiro Ozawa again publicly criticised the prime minister's handling of the post-quake crisis, fuelling media speculation that he and his supporters could join the LDP in passing a no-confidence motion.

Economic statistics released over the past week point to the severe impact of the triple disaster produced by the earthquake, tsunami and nuclear crisis.

* Factory output slumped by a record 15.3 percent in March compared to February—the worst decline since the statistics began in 1953. The earthquake and tsunami that ravaged north-eastern Japan crippled numerous supply chains not only domestically, but throughout many international corporations dependent on Japanese parts.

* Auto production was particularly badly hit as manufacturers were compelled to shut plants and wind back work in others. Output at Toyota plunged by 62.7 percent during April; Nissan 52.4 percent and Honda by 62.9 percent. Auto sales in Japan were down by 32.8 percent in March compared to a year ago.

* Overall retail sales fell by 8.5 percent in March year-on-year—the largest fall in 13 years.

Also hit by the high value of the yen against the US dollar, exports fell by 2.2 percent in March compared to last year.

Economists are generally predicting that growth will improve toward the end of the year, assisted by spending on reconstruction. Japan, like other major economies, is however enmeshed in the ongoing global economic crisis that erupted in 2008, compounding the blows dealt by the March 11 earthquake.

Last Saturday, Bank of Japan Governor Masaaki Shirakawa warned that the outlook for the Japanese economy was "very severe." The Bank of Japan revised its growth rate for the financial year to March to 2.8 percent, down from a 3.3 percent prediction in January. It also slashed its forecast for the current year from 1.6 percent to just 0.6 percent.

Other analysts are more pessimistic. JPMorgan in Tokyo last week predicted an annualised contraction of 1 percent for the June quarter and 3.5 percent for the September quarter.

An economic slowdown will intensify the social crisis facing the earthquake victims, many of whom have lost family members, their homes and businesses. More than 26,000 people were killed or are missing presumed dead after the disaster wiped out entire towns and villages. The subsequent nuclear crisis forced the evacuation of tens of thousands of residents around the Fukushima plant and cast a pall over the region's farms and fishing industry.

The Federation of the Red Cross and Red Crescent Societies estimated this week that up to 127,000 people were still displaced nearly two months after the earthquake struck. The majority of those remained in emergency evacuation centres in various parts of the country. Spokesman John Sparrow said rebuilding would take years to complete.

Most of the initial emergency budget is to be allocated to clearing rubble left behind by the earthquake and tsunami and building 72,000 prefabricated homes. Prime Minister Kan emphasised last Sunday that the accommodation would be put in place quickly. He declared that his government was "aiming" to have the temporary houses completed by mid-August—that is, another three months away.

Hospitals are reporting a sharp rise in pneumonia, particularly among elderly people who have been forced to stay in crowded emergency accommodation for weeks on end. Masaru Yanai, head of respiratory medicine at the Ishinomaki Red Cross Hospital, told the *Wall Street Journal* that there had been roughly five times the normal rate of pneumonia cases since March 11—mostly among elderly evacuees. "Conditions in some shelters are good, but in others they are still very bad," he said. "Many have no heat and no water and lots of people in very close proximity." Elderly people were particularly vulnerable to disease, he noted.

As the austerity demands of the financial markets illustrate, the lack of proper relief for tens of thousands of people whose lives have been devastated is not simply a matter of government incompetence, but a product of the capitalist system, which places profit ahead of the most elementary social needs of the working people.