Japan's monetary boost to escalate currency wars

Nick Beams
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Last week's decision by the Bank of Japan to double the country's money supply over the next two years through massive purchases of long-term government bonds will both fuel the deepening global economic crisis and stimulate further attacks on the Japanese working class.

Japan has not only joined the program of "quantitative easing" being carried out by other major central banks, it has done so at twice the rate being undertaken by the US Federal Reserve Board.

It is a measure of the depth of the crisis of the global economy that the policies now being initiated—shovelling unlimited amounts of money into the coffers of the banks—which only a few years ago would have been dismissed as being too risky, have now become standard operating procedure.

While the Bank of Japan (BoJ) has insisted that its unprecedented actions are solely aimed at stimulating the domestic economy, the massive injection of money will have far-reaching global consequences. It will tend to push down the value of the Japanese currency, thereby providing a boost to Japanese corporations in the increasingly desperate fight for global markets.

Major trading countries, including China, South Korea, Brazil and Australia, as well as countries throughout South-East Asia, whose currency values will be boosted by the decision, are directly in the firing line.

Economists in China, who advise the country's central bank, are reported to be "livid" over the decision, criticising the BoJ's actions as starting a currency war. They have called on the Peoples Bank of China (PBoC) to respond by taking action to push down the value of the yuan.

ANZ Bank economist Liu Ligang described the BoJ decision as "monetary blackmail." Tsinghua University professor, Li Daokui, a former advisor to the PBoC, warned that it "could spell doom" for other economies in the region.

Among the countries to be hardest hit is South Korea, where export income comprises almost 60 percent of gross domestic product. Japan and South Korea compete head-to-head in seven out of ten of their largest exports.

Beside the direct impact of a fall in the value of the yen, one of the consequences of the BoJ decision will be to increase the so-called yen carry trade. This involves finance houses borrowing money in Japan, where interest rates are lower, to invest in countries where they are higher. This pushes up the value of the currencies of those countries, with severe consequences for their exports and internal domestic markets.

Brazil and Australia are likely to be impacted. Brazil has already imposed capital controls to try to contain the inflow of such "hot money." In Australia, the inflow of finance in search of higher rates has seen the dollar reach near record highs, with devastating consequences for key industries, especially manufacturing.

This week, following the announcement of 500 sackings by General Motors, Jac Nasser, the head of Ford from 1998 to 2001, warned that the high Australian dollar, coupled with increased international competition, meant there was no future for car manufacturing in the country. The impact on other key sections of manufacturing is equally severe.

As is always the case, economic warfare on the international front is being accompanied by deepening attacks on the working class at home. There are increasing calls from business and financial circles in Japan for measures to reduce the public debt, now at around 240 percent of gross domestic product, and for a "restructuring" of the country's economy.

Prime Minister Shinzo Abe's government has already signed off on measures to lower standard welfare benefits by around 6.5 percent, starting in August, with the cuts extending over a three-year period. The new measures will also affect other levels of public assistance, such as subsidies for school expenses, as these are related to the standard welfare payment.

The government has justified the cuts by saying welfare benefits should be reduced in line with the deflation of Japanese prices. But the stated aim of the BoJ is to generate inflation, so that welfare payments will be reduced even as prices start to rise. Furthermore, the weakening of the yen will increase prices on all imports coming into Japan, raising the cost of living.

Far-reaching changes are also taking place in the workforce. The days of so-called lifetime employment in Japan have long gone. About 14.1 million workers, comprising more than 25 percent of the workforce, are now on fixed term contracts. In some companies new hires are being placed on six-month contracts, with no prospects of renewal.

Legislation was passed last year to double the national consumption tax to 10 percent by late 2015. Further increases or new taxes may be introduced in the future. The ostensible reason for the consumption tax rise, introduced by the former Democratic Party of Japan government before it lost office in last December's election, was that it was needed to finance the social security system. But on that basis, it has been calculated that the tax would need to rise to 30 percent.

Last month, Prime Minister Abe announced that Japan would take part in the US-sponsored Trans-Pacific Partnership (TPP) negotiations. A report published by the US think tank, the Brookings Institution, said TPP participation would provide a "focal point for the deregulation and competitiveness that Japan's economy sorely needs" and help realise the "single most important component of Prime Minister Abe's economic strategy: structural reform."

As in every country, these are code phrases for the launching of major attacks on jobs, wages, working conditions and social benefits. These will accelerate after the elections for the Japanese upper house scheduled for July.

The economic and political agenda being advanced by key sections of the Japanese ruling elites was spelled out in an interview with former Tokyo governor Shintaro Ishihara, head of the opposition Japan Restoration Party, published in the *Ashahi Shimbun* on April 4.

Ishihara said the fundamentals of the country had to be changed, as the current system based on "high standards of welfare with [a] low tax burden no longer worked."

The connection between the domestic agenda and the rise of nationalism and militarism was underscored by Ishihara's insistence that the constitution should be revised to remove the so-called pacifist clause.

"Japan should become a strong military power," he said, as a "nation's voice can be backed by military power and the economy. A defence industry can best contribute to revitalising a nation's economy. To discuss possible nuclear armament is an option for Japan's future."

While Ishihara is an outspoken rightwinger, he voices the views of broader layers of the Japanese political establishment, including inside the government. As his comments make clear, Japan's policy of "quantitative easing" is part of a broader agenda of aggressive economic nationalism that is leading to conflict and war.