As growth slows, Bank of Japan “opens spigot” to the rich

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The Japanese economy slowed markedly in the final quarter of 2013, pointing to an unraveling of Prime Minister Shinzo Abe’s much-vaunted “Abenomics.” Statistics released last week revealed that GDP grew by only 0.3 percent (1.2 percent annualised) for the quarter—less than half the expected 0.7 percent. Overall growth for 2013 was just 1.6 percent. The slowdown reflected weakening exports, private consumption and corporate capital spending.

After coming to office in December 2012, Abe proclaimed that his economic policy, dubbed Abenomics, had three “arrows.” The first was an unprecedented monetary easing policy to double Japan’s monetary base over 21 months, from its initiation in April 2013. As with the US “quantitative easing” program, the Bank of Japan (BOJ) pumps 60 to 70 trillion yen ($US585 to $680 billion) annually into the economy, mainly through government bond-buying. The central bank is aiming to achieve 2 percent inflation and end more than a decade of deflation. The second “arrow” involved a modest stimulus spending program.

The final “arrow” consisted of anti-working class “structural reforms.” These are yet to be announced in detail, but the general aim is to further dismantle job security and undermine wages and working conditions while cutting corporate taxes. At the World Economic Forum last month in Davos, Abe indicated that this was in store when he boasted of carrying out pro-market reforms previously thought impossible. A “new dawn [is]... breaking over Japan,” he declared, promising that “companies ... will find Japan among the most business-friendly places in the world.”

The first two “arrows” produced limited economic growth during the second and third quarters of last year. However, as in the US, this was largely based on rising stock market prices, fueled by easy money. The latest slowdown points to the limitations of such economic activity, yet the official response was more of the same.

The day after the worsening GDP data was published, the central bank announced what *Bloomberg* termed “opening the lending spigot.” Last Tuesday, the BOJ decided to keep unchanged the pace of its expansion of the country’s monetary base. The bank also extended for one year a lending program previously set to expire in March, and doubled the amount it lends virtually for free to banks.

While funding costs for the nation’s lenders average 0.97 percent, the BOJ will now provide 7 trillion yen ($68 billion) in fiscal 2014—which starts in April—to financial institutions at only 0.1 percent interest. The central bank also relaxed the rules, to allow individual banks to borrow twice as much as before.

The markets celebrated the BoJ announcement, with Tokyo stocks rallying 3.13 percent the same day. The decision was what the financial elite had been demanding.

Japanese Bankers Association chief Takeshi Kunibe told a press conference the previous week: “The BOJ’s lending program is a very useful and meaningful tool to secure the Japanese economy’s growth and allow banks to provide funds with companies aggressively. … We’d like the BOJ to extend the facility.” Kunibe is also a president of the lending unit of the Sumitomo Mitsui Financial Group, one of several financial trusts dominating the world’s third largest economy.

However, the banks are not using the money to lend to companies. They are hoarding it and diverting it into stock speculation. *Bloomberg* noted “growing stockpiles of cash” that the banks “aren’t deploying for loans,” citing data showing “financial institutions’ reserves ... almost tripled over the past year.”

As far as the corporate elite is concerned, these expansionary policies are boosting the international competitiveness of Japanese export industries against their global rivals by lowering the yen, and shifting the economic burden onto the working class through inflation.

The yen declined by some 18 percent in 2013, while Tokyo's benchmark Nikkei index soared 57 percent, its best performance in decades. At the same time, the working class is facing rising prices and falling wages, and will suffer disproportionally from the coming sales tax hike, from 5 to 8 percent starting from April, and 10 percent next year.

Reflecting the BOJ's inflationary policies, consumer prices were already up last year, for the first time in five years. They rose by 1.6 percent, with fresh food prices soaring by 13.6 percent, and electricity 8.2 percent.

On the other hand, wages fell 0.6 percent in November from a year earlier, the 18th consecutive monthly drop. The Associated Press noted that "Japan's median household income of 3.8 million yen ($38,700) in 2012 was down from 4.5 million yen in 1997," and concluded: "Today's workers are worse off than their parents and their incomes continued to fall in 2013..."

Asked by the Associated Press about Abenomics, retiree Takeshi Onodera commented: "Up to now, it's all been a minus. I don't see any signs it's made a difference. Really, it hasn't reached us."

Especially hard hit are non-regular—part-time and temporary workers—who now account for 37 percent of the Japanese workforce. Not only are they paid about a third of what regular employees make, they are most often not covered by health insurance, pensions or unemployment benefits.

What the Associated Press referred to as the "already Spartan social safety net" is also under attack. Welfare benefits were cut 10 percent last August, with further reductions planned.

The sales tax hike—the first since 1997—will also affect economic growth, with economists predicting a 3.9 percent decline in the quarter from April. The tax rise was urged by the International Monetary Fund (IMF), and pushed through parliament by the previous Democratic Party of Japan government, with support from the now-ruling Liberal Democrats and New Komeito.

The doubling of the sales tax rate will have a major impact on domestic demand, but do little to address the huge public debt, which stands at some 240 percent of GDP. Japan used to be able to balance this through trade surpluses. Since 2012, however, Japan has had record trade deficits. Last year, the deficit swelled to $112 billion, the biggest since comparable data started in 1979.

Abe's economic policies amount to currency warfare against Japan's global competitors, and are reminiscent of beggar-thy-neighbor policies of the major powers during the 1930s. Then, as now, such economic policies both feed off heightened global geo-political tensions, and in turn further inflame them, while deepening the assault on the living standards of the working class at home.