

Japan slides back into recession

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One day after the G20 summit in Brisbane, at which Australia issued a statement setting the objective of increasing world growth by 2 percentage points over the next five years, the release of data showing that Japan had fallen back into recession underlined the worsening state of the global economy.

Contrary to most forecasts, which predicted an annualised growth rate of above 2 percent for the third quarter, preliminary figures showed a contraction at an annualised rate of 1.6 percent. Coming on top of the 7.1 percent fall in the second quarter, the new figures mean that Japan is officially in recession.

This is the fourth recession experienced by the world's third largest economy since the global financial crisis of 2008-2009. Together with near-zero growth in the euro zone, it signifies that the tendencies toward stagnation and outright recession in the world economy as a whole are intensifying.

Some commentaries on the shock announcement attempted to downplay its significance by pointing out that, but for a significant rundown in inventories, growth would have returned to a small positive figure. In fact, the fall in inventories is indicative of mounting problems. It shows that manufacturers are wary of building up large stocks of unsold goods because they anticipate slowing consumption.

When growth contracted sharply in the second quarter, outweighing a rise in the first three months of the year, it was attributed to the increase in Japan's consumption tax from 5 percent to 8 percent last April. Financial commentators hoped that the slump was a result of this one-off factor. Such hopes have now been dashed.

Yoshiki Shinke, the chief economist at Dai-ichi Life Research Institute, told Bloomberg: "April's sale tax completely destroyed Japan's economy—no part of Japan's economy looks encouraging."

While the language was not as strong, an editorial in

today's *Financial Times* pointed to the implications of the contraction. "Far from recovering, Japan's economy has slipped ominously into reverse," it stated.

A breakdown of the third quarter data shows that the sales tax hike's impact was more severe than anticipated. Housing investment fell 24 percent from the same quarter a year ago, while corporate capital investment declined almost 1 percent. Consumer spending, which accounts for two thirds of the economy, rose by only 0.4 percent.

The contraction has thrown a cloud over the economic program of Prime Minister Shinzo Abe, known as Abenomics.

When he came to power two years ago, Abe pledged to lift the economy after almost two decades of stagnation. He unveiled a government stimulus package and the Bank of Japan undertook the largest program of government bond purchases on a per capita basis of any central bank in the world in order to try to halt the deflationary spiral.

Faced with continued downward pressure on prices, Bank of Japan Governor Haruhiko Kuroda announced a further expansion of quantitative easing last month. That decision was implemented only after a five-to-four vote on the bank's governing council, indicating deep policy rifts within the Japanese financial and political establishment.

Those divisions are also reflected in differences over whether the proposed second leg of the consumption tax hike—a rise from 8 to 10 percent scheduled for October 2015—should now go ahead.

The tax increase is being demanded by those who insist that the government must rein in the growing budget deficit, which stands at 240 percent of gross domestic product (GDP), the largest by far for any major economy.

Longer-term data indicate the government's mounting fiscal problems. According to calculations by

Bloomberg, nominal GDP, which is not adjusted for price changes, is now 7.9 percent below its peak in 1997. This means that tax revenues, which are based on nominal amounts, are under continuous downward pressure. This is a key reason why the government insists that returning inflation to a level of at least 2 percent is priority.

With his economic policies having suffered a major blow, Abe may move to dissolve the Diet and go to a general election. As a comment piece in the *Financial Times* on Monday put it, however, any election would be less about Abe's control of the parliament and more about trying to assert his dominance over his Liberal Democratic Party.

"Fiscal hawks" in the LDP's tax commission, the comment noted, have demanded that Abe proceed with his commitment to lift the consumption tax rate. The LDP "hawks" have support in both the finance ministry and the Bank of Japan.

The problem confronting Abe is that if he goes ahead with the tax increase, this will further depress the economy, adding to the deflationary pressures the Bank of Japan is trying to counter with its bond-purchasing program. Consequently, he is expected to push for a delay in the second leg of the tax hike, possibly pushing it out to 2017.

The tax rate rise is unlikely to be totally scrapped, however, because of concerns that unless the government is at least seen to be trying to implement revenue-raising measures and halt the rise of debt, the financial system's stability could be undermined.

The growing dilemmas arising from the fiscal and monetary aspects of Abenomics have led to calls for the "third arrow" of Abe's program, structural reforms, to be implemented. As in other countries, this involves far-reaching attacks on the position of the working class, above all, increased casualisation and the ending of job permanency.

Euphemistically characterising this program as "loosening up the jobs market," the *Financial Times* editorial made clear that it was time to pull the "third arrow" firmly from the quiver. While acknowledging that structural reform would not be the central theme of an election, the newspaper insisted it was necessary that "the country presses ahead with the task."

In other words, the failure of stimulus measures and the deepening recessionary trends mean that the

Japanese working class, like its international counterparts, is faced with major attacks.



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