

# As election campaign begins, Moody's downgrades Japan's debt

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International credit rating agency Moody's yesterday downgraded the Japanese economy from Aa3 to A1, just as Japan's election campaign was about to officially get underway today. The announcement places further pressure on Prime Minister Shinzo Abe, who called the snap poll for December 14 on news that the economy is in recession.

Moody's pointed to concerns over Abe's decision to delay the next sales tax rise from 8 to 10 percent, originally scheduled for October 2015, for another 18 months. It questioned the government's ability to rein in its colossal public debt, which stands at 226 percent of gross domestic product, following the delayed tax hike. The A1 rating places Japanese government debt on a par with that of Bermuda, Oman and Estonia.

Abe called the election as a referendum on his "Abenomics," which is a combination of three "arrows"—a limited fiscal stimulus, a massive injection of funds into the financial system via a Japanese-style quantitative easing, and so-called structural reform. Fearing opposition, Abe has not implemented the last arrow, which involves a deepening assault on the social position of the working class.

The pumping of money into the financial system initially contributed to growth by forcing down the value of the yen and encouraging exports. It also fuelled speculation on the stock market and provided a huge boost to share prices and profits. However, the imposition of the first sales tax hike from 5 to 8 percent in April produced negative growth in the second quarter of 2014, because consumer spending contracted markedly. While that downturn was expected, its continuation into the third quarter, with a further 1.6 percent annualised decline, was not.

Commenting on the dilemma facing the Japanese government, Moody's spokesman Thomas Byrne said:

"The government has to in effect put one foot on the brake and another on the accelerator." But by focussing on the delayed sales tax hike, the agency made clear that it expected the government to meet its promise to halve the budget deficit by the 2015 fiscal year and bring in a surplus by 2020. The downgrade is a warning to the next government to make the necessary inroads into living standards to achieve that result.

Abe called the snap election in a desperate bid to get a fresh mandate for his unpopular policies of austerity and militarism. Since coming to power in December 2012, his economic policies have buoyed profits and share prices at the expense of the living standards of working people. His claims to have created jobs and lifted wages are false—the jobs generated have been in poorly paid, irregular work, and the wage rises have been for the better paid.

At the same time, Abe has aggressively pursued Japan's remilitarisation by "reinterpreting" the country's constitution to allow the military to participate alongside the US and other allies in foreign wars. He increased military spending for the first time in a decade, established a US-style national security council and legislated sweeping new secrecy laws, screening large areas of government activity from public scrutiny. Abe's visit to the notorious Yasukuni shrine to the war dead last year signalled the start of a campaign to revive Japanese militarism by whitewashing the war crimes of Japanese imperialism in the 1930s and 1940s.

Abe and his Liberal Democratic Party (LDP) have narrowly focussed their election campaign on the slogan "for economic recovery, this is the only path." While standing by the decision to delay the sales tax rise, the LDP platform released last week reiterated the government's 2020 deadline to balance the budget,

without indicating how it would achieve that. The party's pledge to slash the corporate tax rate from 35 to 30 percent means that even deeper inroads will be made into spending on essential services such as health care, welfare, pensions and education. In order to dress up the sales tax, the LDP promised to cut the rate on basic necessities by 2017.

Opinion polls by the *Asahi Shimbun* and *Nikkei* newspapers indicate that, despite low approval ratings, the LDP is likely to win the election. After Abe announced the election on November 18, the LDP scored 35 percent in the *Nikkei* poll and 37 percent in the *Asahi* poll, while its junior coalition partner, New Komeito, gathered 3 percent and 5 percent respectively.

Support for the opposition Democratic Party of Japan (DPJ), which held office from 2009 to 2012, was just 11 percent in the *Asahi* poll and 9 percent in the *Nikkei* poll. Around one third of voters were undecided—a continuation of the deep alienation of broad layers of working people and youth from the entire political establishment over the past two decades.

The government and its policies are far from popular. A Kyodo News poll last Friday and Saturday found that 84.2 percent of respondents did not think the economy had improved as a result of Abenomics. On the government's constitutional reinterpretation to allow "collective defence," 53.3 percent were opposed. There is also widespread opposition to Abe's decision to restart the country's nuclear reactors, which were shut down following the 2011 Fukushima nuclear disaster.

The DPJ's lack of support stems from the fact that its policies are not fundamentally different from the LDP's. The DPJ took office in 2009, breaking more than half a century of virtually continuous LDP rule. In the midst of the global financial crisis, the DPJ rapidly ditched its promises to increase social spending, reform the state bureaucracy and, while maintaining the US alliance, pursue a more independent foreign policy.

The DPJ's slogan for the December 14 election is "now is the time to change the flow." The party's platform, also released last week, is critical of Abenomics and calls for a narrowing of social inequality and a revival of "a wealthy middle class." It advocates subsidies for small and medium business as well as rural communities. At the same time, the DPJ's commitment to economic recovery ensures that if it forms a government it will impose the austerity

measures being demanded by finance capital, as it did when it was last in office.

Amid worsening international economic turmoil, more bad news on the Japanese economy was released last Friday. Statistics for October showed a 4 percent decline in household spending year-on-year, a rise in unemployment to 3.6 percent from 3.5 percent a month earlier, and inflation falling to its lowest point in more than a year. The figure of 0.9 percent inflation, after adjustment for the April sales tax hike, is well below the government's 2 percent target.

The Moody's downgrade is a clear signal that whichever party constitutes the government after December 14, it will mount a stepped-up offensive against the working class.



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