Japan’s credit rating cut as economy contracts

Ben McGrath
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Standard and Poor’s downgraded Japan’s sovereign debt rating on Wednesday from AA- to A+ due to growing concerns over the Japanese economy. It is the third such move by the global credit ratings agencies, following similar ones by Fitch in April and Moody’s in December.

The downgrades demonstrate the financial markets’ dissatisfaction with the failure of Prime Minister Shinzo Abe’s “Abenomics” to halt Japan’s protracted slump. After taking office in December 2012, Abe claimed that his “three arrows” economic plan would boost growth in Japan’s stagnant economy.

In the latest blow to Abe, his government announced last month that Japan’s economy had shrunk in the second quarter of 2015 by 1.6 percent on an annualized basis.

“We believe that the government’s economic revival strategy—dubbed ‘Abenomics’—will not be able to reverse this deterioration in the next two to three years,” S&P stated. “Economic support for Japan’s sovereign creditworthiness has continued to weaken.”

The downgrade is meant to apply pressure to Abe’s government to implement the economic measures demanded by the financial elite. This means shifting more of the burden of the slump onto the backs of the working class through lower wages and reduced social programs.

Masaki Kuwahara, an economist at Nomura Securities Company stated: “Today’s downgrade is a message that the government will need to have a more credible fiscal reform plan.”

Playing a role in the S&P’s decision was the mounting gross government debt, currently standing at more than 1 quadrillion yen ($US11 trillion). This represents 246 percent of gross domestic product, a higher proportion than in any other advanced country. The International Monetary Fund (IMF) recently warned that debt would continue to rise to 300 percent by 2030 unless the government curbed spending.

The working class is already being made to pay for this crisis. Average per capita income fell from $47,000 to $36,000 between 2011 and 2014. In line with measures begun under the previous Democratic Party of Japan-led government, Abe has raised the country’s regressive sales tax from 5 percent to 8 percent, hitting the living standards of ordinary working people the most, and plans to raise it again in April 2017 to 10 percent.

The first “two arrows” of “Abenomics” consist of a limited set of stimulus measures (the first arrow) and a massive program of quantitative easing (the second arrow). The Bank of Japan (BoJ) currently purchases government bonds and other assets at a cost of 80 trillion yen ($663 billion) annually.

These measures sought to raise Japan’s inflation rate to 2 percent by next September. However, the country is once again bordering on deflation. Only a day before the S&P downgrade, Haruhiko Kuroda, head of the BoJ, made clear that for the time being there would be no change to the easing program.

The Japanese economy has also suffered from the slowing growth in China. Kuroda hopefully stated: “There are effects through trade, investment and finance, but trade is the big one, so if China’s economy maintains stable growth our exports should too.” However, Chinese growth this year is expected to be well below Beijing’s projected 7 percent.

The financial elite is demanding that Abe fully unleash his “third arrow,” which was first unveiled in mid-2014. It is a far-reaching program of more than 200 pro-market restructuring measures that will make deep inroads into the social position of the Japanese working class.

Its main planks include cutting the corporate tax rate, now one of the highest in the OECD. This year it will fall from 34.62 percent to 32.11 percent and again to 31.33 percent next year, with the ultimate goal of lowering the rate into the 20 percent range.

The "third arrow" also involves further eroding the country's so-called lifetime employment system, making it easier for corporations to fire employees, and establishing special economic zones where corporations can circumvent government regulations.

Earlier this summer, the IMF demanded that Abe go further, saying: "Further high-impact structural reforms are urgently needed to lift growth." The *Financial Times* gave the "third arrow" a D-grade recently in regard to "reforming" the labor market. "On labor law they're really just not moving fast enough," Robert Feldman, the chief economist on Japan at Morgan Stanley, said.

Another factor in the attitude of the financial markets is the Abe government's ongoing failure to reach agreement with the US in the negotiations for the Trans-Pacific Partnership (TPP). Commenting on Abe's plans, Bloomberg News commented: "We're still waiting to hear exactly what he's going to do, but it has to be deregulation. It has to be the TPP agreement, too."

The TPP is a 12-country trade bloc being pushed by the United States, which would encompass 40 percent of the world's economy but exclude China. The TPP is the economic front of Washington's military and strategic "pivot to Asia," designed to both economically undercut Beijing's interests and surround China militarily. US Defense Secretary Ashton Carter stated in April that the TPP was "as important to me as another aircraft carrier."

Despite five years of talks, Canada, Mexico, the US and Japan remain at loggerheads over auto exports. Among other issues, Japan wants more access to the North American market for its auto parts industry while the US and others want to open up Japan's consumer market, particularly in the agricultural sector.

Talks were held in Washington last week between the US, Canada, Mexico and Japan, but little has been resolved. However, as all the TPP negotiations have been conducted in secret, it is unclear how far apart each side stands.

Abe's aggressive economic measures, directed both against Japanese workers and Japan's rivals, go hand in hand with his reassertion of Japanese militarism to pursue the ruling elite's strategic and commercial interests across Asia and internationally. Despite deep popular hostility to war and re-militarisation, his government is building up the military and pushing legislation through the parliament to free it from constitutional constraints.