

# Japan's Currency War. Militarization and Monetary Policy

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*Japan's new Liberal Democratic Party (LDP) government has begun implementing an aggressive nationalist program on two fronts. An expansion of the military unshackled from constitutional restraints is being matched by a unilateralist monetary policy aimed at weakening the yen and expanding exports at the expense of Japan's rivals.*

Under intense pressure from Prime Minister Shinzo Abe, the Bank of Japan (BoJ) announced on Tuesday that it would expand its inflation target from 1 to 2 percent "at the earliest possible time" through an open-ended purchase of bonds and other assets—a policy in line with the US Federal Reserve's "quantitative easing."

However, the central bank, which has been resistant to demands for monetary easing, put off bond purchases until January next year. Money markets responded accordingly. Having driven down the value of the yen by 12 percent against the US dollar since November on the expectation of Abe's new monetary policy, the markets bid the value of the yen higher following the BoJ announcement.

Abe praised the central bank's decision, saying that it represented "a step toward bold monetary easing." This move will not be the last, however. Abe warned in the course of last month's election campaign that he would, if need be, legislate to force the BoJ to carry out his monetary policy. Moreover, he has the opportunity to install a new BoJ governor when the term of the incumbent ends in March.

The BoJ decision immediately provoked warnings from Japan's economic rivals that it could trigger a round of competitive devaluations—a "currency war." Bank of England Governor Mervyn King said that if other countries followed suit, it would be "hard to be optimistic about how easy it will be to manage the resulting tensions." Michael Meister, a senior member of Germany's ruling party, warned that the decision could "create a spiral that hurts us all," and indicated that Berlin might seek G20 support to pressure Japan to change course.

Speaking to the *Financial Times*, Japan's economy minister, Akira Amari, hit back at concerns expressed by Jens Weidmann, the president of Germany's Bundesbank, over "alarming infringements" of the BoJ's independence. Rejecting the accusation, Akira declared: "Germany is the country whose exports have benefited most from the euro area's fixed exchange rate system. He's not in a position to criticise."

The Abe government's policies are being driven by the country's worsening economic crisis. The protracted stagnation following the collapse of speculative property and share bubbles

in the late 1980s is intersecting with the global economic breakdown that began with the 2008 financial crisis. Repeated attempts to boost growth through public works programs failed. The result is an unsustainable public debt, currently at 240 percent of gross domestic product—the highest level of any industrialised country.

One of the factors in Japan's ability to weather the economic storm has been its large trade surpluses, but the trade balance turned sharply negative in past two years. In 2012, Japan experienced its largest-ever trade deficit. Exports plunged 5.8 percent overall and by 15.8 percent to China amid sharp tensions over disputed islands in the East China Sea. Imports increased, particularly of energy, in the wake of the Fukushima nuclear disaster and the shutdown of nuclear power plants.

Japan's inherent economic vulnerabilities are being exposed. As an island nation largely devoid of natural resources, Japanese capitalism has always been heavily dependent on export markets and access to cheap raw materials. The air of desperation surrounding the Abe government's aggressive monetary policy and renewed economic stimulus measures echoes Japan's response in the 1930s.

Hard hit by the Great Depression and a dramatic slump in exports, the Japanese government that assumed office in December 1931 ended the gold backing for the yen, greatly expanded public spending, especially on the military, and cut interest rates to stimulate business. The value of the yen plunged by 60 percent against the US dollar and 44 percent against the pound sterling.

Writing in Britain's *Daily Telegraph*, business commentator Ambrose Evans-Pritchard described Abe's policies as "a copy of what happened in the early 1930s under [Finance Minister] Korehiyo Takahashi, the first of his era to tear up the rule book and pull his country out of the Great Depression... Few dispute that Japan pioneered the world's most successful [economic] experiment from 1932 to 1936. The trick was to hit hard and combine all forms of stimulus, each leavening the other."

This so-called "success," however, came at a terrible price. Takahashi's policies were in line with the beggar-thy-neighbour agenda increasingly pursued by all the imperialist powers, which greatly heightened geo-political tensions. Moreover, Japan's economic program was accompanied by police-state repression against the working class at home and military aggression abroad to open up markets and access to raw materials. Japan's invasion of Manchuria in 1931 and China in 1937 set the stage for the eruption the Pacific War in 1941, with devastating consequences for the working class.

Today, the right-wing Abe government is pursuing a similarly perilous mixture of nationalist economic policies and militarism—and it is not alone. The Obama administration's resort to unlimited quantitative easing and its aggressive "pivot to Asia" to contain China have encouraged Abe to fire his own shot in the developing international currency wars, as well as to remilitarise Japan. After a decade of US-led neo-colonial wars in the Middle East and an emerging scramble for Africa, the Japanese ruling class is drawing the conclusion that a strong military is necessary to prosecute their economic and strategic interests.

This slide towards an even more devastating global war is being accompanied by the whipping up of poisonous nationalism in every country. The only social force that can prevent war is the international working class through a unified struggle to abolish the profit system and its division of the globe into rival nation states, and establish a worldwide

planned socialist economy to meet the social needs of humanity as a whole.

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