

As slump and unemployment worsen in Japan

Economic package provokes rifts in Hashimoto government

Peter Symonds
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Japanese Prime Minister Ryotaro Hashimoto last Friday belatedly announced details of a 16.6 trillion yen (\$US120 billion) economic stimulus package. The plan was initially foreshadowed in March, under pressure from Washington, European governments and the International Monetary Fund.

The government is planning to pump 7.7 trillion yen into public works this year, including a new fibre optic cable network and more traditional projects, such as roads, bridges and port facilities. Also included is 4 trillion yen in temporary income tax cuts over the next two years, and a modest increase in the welfare budget to cope with Japan's growing army of unemployed.

Yet, even though the spending program is more than twice the annual output of countries like Malaysia or Thailand, it has done little to bolster business confidence. The Tokyo stock market plunged 2.25 percent on Monday and another 1.6 percent on Tuesday to 15,395, the lowest point in three years. The yen fell sharply to 131 to the US dollar.

The package involves a major about-face for Hashimoto. Last year his government increased the consumption tax from 3 to 5 percent and enacted legislation to compel governments to reduce the budget deficit. He will now have to amend that legislation to allow for greater spending. The package is meant to lift the economy out of recession and to salvage the political fortunes of Hashimoto and the ruling Liberal Democratic Party (LDP) in the lead-up to upper house elections in July. It is likely to do neither.

Throughout the 1990s Japan's economy has stagnated despite a series of such packages. The Organization for Economic Cooperation and Development (OECD) predicts that the economy will contract by 0.3 percent in 1998, the first full-year negative result in 24 years.

Retail sales slumped by 14 percent in March and industrial output fell for the second month in a row—by 1.9 percent. Retrenchments are continuing in the key construction industry, which experienced a 30 percent increase in bankruptcies last year. According to the latest official

unemployment figures, 2.77 million workers are now jobless. In March the rate rose from 3.6 to 3.9 percent—the highest level since 1953, when unemployment records began. Some commentators predict a rise to more than 5 percent by the end of the year. Among school leavers and university graduates the unemployment rate is already 10 percent.

Splits in the ruling party

Hashimoto's package has intensified divisions in the LDP and deepened the political crisis of his government. Influential sections of the ruling party have responded angrily to the decision to include income tax cuts and reduce the amount for public works. Lucrative public works contracts have been used by the LDP to curry favour with sections of big business and voters in key rural electorates, where construction projects have provided employment.

Before the latest package, political figures representing these interests, such as former Construction Minister Shizuka Kamei and ex-LDP secretary-general Seiroku Kajiyama, were highly critical of Hashimoto's attempts to rein in spending. Kamei repeatedly called for his resignation.

Kamei and Kajiyama have now been joined by other LDP leaders, including current secretary-general Koichi Kato and policy co-ordinator Taku Yamasaki, who have backed Hashimoto until now. Kato recently commented to the Foreign Correspondents Club in Tokyo: "I think tax cuts are not so effective. Did you see any effective results? No, and I bet you will never see any."

A fortnight ago, anti-Hashimoto MPs from all LDP factions met to discuss the formation of a new government under Foreign Minister Keizo Obuchi, with Kato and Yamasaki in prominent cabinet posts. Kamei and Kajiyama

were proposed for top party jobs.

Hashimoto has survived, temporarily, but he is under siege from all sides. Outside the LDP, opposition leaders, big business and media owners have attacked him for not proceeding fast enough to restructure the highly regulated economic and financial systems and for bowing to LDP demands for more public works projects.

A month ago, for example, the business newspaper *Nikkei Weekly* commented caustically on Hashimoto's planned economic package: "If the public works pie becomes larger, the LDP's *zoku-giin* —party members with cozy ties to specific industries and the ministries that regulate them—will scramble to make sure the industries they serve will get as large a share as possible.

"Expect in the end the usual array of wasteful, inefficient civil engineering projects, which recent experience has shown will do little in the way of enlivening the wobbly economy."

More recently, the *Yomiuri Shimbun*, a daily newspaper with close ties to the LDP, has published an eight-part series expressing deep frustration with Hashimoto's inability to overcome the economic crisis and make Japan more competitive with its rivals.

The newspaper compared the Japanese economy to the Titanic and implicitly called for Hashimoto's scalp. It demanded an end to "faceless" prime ministers and weak leadership. It urged "urgent reform" to the political system to end "consensual government" and "allow the prime minister to make top-down policy decisions."

Protracted political crisis

Yomiuri Shimbun's articles reflect a deep dissatisfaction in ruling circles, not only with Hashimoto, but with the entire structure of Japanese politics. Throughout the 1990s a succession of governments have failed to deal with an economy mired in recession, a banking system burdened by huge levels of bad debt, and sharpening conflicts with Japan's economic rivals, the United States and Europe.

The post-World War Two political set-up, based on horse-trading among the LDP factions and the major opposition party, the Japanese Socialist Party (now a tiny rump known as the Social Democratic Party), is completely inadequate for the challenges confronting the Japanese ruling class. The economic meltdown in much of Asia, where Japanese banks and corporations are major investors, has compounded the crisis.

In 1993 the two major post-war parties both began to

fracture. The LDP is still the largest parliamentary bloc, but is forced to rely on the small New Party Sakigake and the remnants of the Social Democratic Party to give it a majority. The political crisis is intensified by the lack of a stable official opposition party. The last four years have witnessed a series of breakups and realignments. The largest opposition coalition, the New Frontier Party, collapsed late last year.

On Monday, the Democratic Party of Japan (DJP or Minshuto) absorbed three fragments of the New Frontier Party to become the second largest parliamentary group. But it is just as unstable as previous coalitions, containing former SDP members and conservative ex-LDP figures like former prime minister Tsutomu Hata.

Its leader, Naoto Kan, is paraded in the media as a populist who may win significant support away from the LDP in the July upper house elections. He is seeking to appeal to voters by attacking "corruption" and calling for higher tax cuts and greater welfare spending.

But as a recent Tokyo by-election confirmed, broad layers of working people, particularly youth, are alienated from the entire structure of official politics. In one of the lowest ever voter turnouts, only 37 percent of those eligible bothered to vote.

Last weekend Kan called for a federation of opposition parties modelled on Italy's Olive Tree coalition. It was a pointed appeal to the Stalinists of the Japanese Communist Party, whose vote has risen significantly over the last four years. In the by-election their candidate won 24 percent of the vote, as compared to 25 percent for the DPJ-backed candidate and 34 percent for the LDP.

The Japanese Stalinists have indicated their willingness to co-operate closely with other opposition parties and recently held talks with Kan over a no-confidence vote against the Hashimoto government. As in Italy, the entry of the Stalinists into a capitalist coalition would serve one basic purpose—to smother the opposition of the working class while the government imposed austerity measures.

A decade ago an upper house election would have caused little more than a ripple in Japan's political life, as the two established parties shared out the seats. Today, the July elections loom as a major crisis: Hashimoto may not even last out the next two months as prime minister, and a failure by Kan to increase his party's vote could lead to a further reshuffling of opposition groupings.



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