

In-fighting over Hashimoto's replacement

Japanese politics in limbo

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Official Japanese politics are in limbo following the resignation of Prime Minister Ryutaro Hashimoto on Monday after the ruling Liberal Democratic Party's (LDP) disastrous losses in last weekend's upper house elections. The LDP won only a third of the 126 seats contested.

In the world's second largest economy, the government's policies are now on hold. Hashimoto has cancelled his planned trip to Washington to brief US President Clinton on Japan's economic plans and called off a visit to France. Within the LDP, factional manoeuvring is well underway for the top leadership position, due to be discussed at a party meeting on July 21.

While a new prime minister is due to be formally endorsed at a meeting of the Japanese parliament or Diet on July 30, the present standstill is symptomatic of a far deeper paralysis and stagnation. Japan's protracted economic slump and financial crisis has produced a wave of bankruptcies and record levels of unemployment undermining the government's credibility. Now money market concerns over his replacement are likely to produce greater economic uncertainty, both in Japan and internationally.

No great confidence has been expressed in any of the likely successors. A survey of 55 top corporate executives published on Tuesday in the business newspaper *Nihon Keizai* found that only 16 supported a particular candidate as the next prime minister. Of those, 13 nominated former cabinet secretary Seiroku Kajiyama, 72.

Kajiyama, a member of the largest LDP faction, has been highly critical of Hashimoto's handling of Japan's economy. He has been closely aligned with those who favoured the party's traditional method of stimulating the economy through large public works projects to

boost particular electorates and favoured companies.

But such methods have been increasingly under attack. The US, the IMF and sections of big business in Japan itself are pushing for the dismantling of close ties between government and corporations as part of a far broader opening up of the Japanese economy. Their preference is to try to boost spending through permanent tax cuts.

Recently, however, Kajiyama has sought to enhance his image as an economic reformer by calling for a more radical restructuring of the banks. Just prior to the election, Hashimoto announced the establishment of a 'bridge bank' to deal with the mountain of bad debt in the banking system -- estimated to be at least \$US600 billion -- over a five year period. Responding to criticism that the plan did not go far enough, Kajiyama stated that the number of major banks should be slashed from 19 to 10.

Kajiyama's main opponent is Foreign Minister Keizo Obuchi, 61, head of the largest LDP faction. Although he has substantial party support and is the favoured candidate, Obuchi is regarded as a rather colourless figure. According to HSBC Securities strategist Garry Evans, Obuchi is a 'consensus choice' who lacks 'any understanding of economics'.

Other possible candidates include the aging former prime minister Kiichi Miyazawa, a former party president Yohei Kono, and Health Minister Junichiro Koizumi -- the only contender who is younger and unaligned to any faction.

Who nominates and who finally wins will be decided in the byzantine world of LDP politics by factional strongmen such as Yasuhiro Nakasone and Noboru Takeshita, both former prime ministers. The outcome is likely to be a compromise aimed at accommodating the major factions and candidates.

Both Obuchi and Kajiyama reflect the deeply conservative nature of LDP politics. Obuchi resigned only last September as head of a parliamentary grouping that promotes pilgrimages to Tokyo's Yasukuni Shrine, which is dedicated to Japan's war dead and is a focus for right-wing nationalist sentiment. Kajiyama is known for his remarks defending the wartime practice of forcing women into prostitution as 'comfort women'.

Whoever takes the helm of the LDP faces political and economic turmoil. The last decade has seen no less than seven different prime ministers as the LDP has become embroiled in a series of corruption scandals -- themselves a product of the collapse of the frenzy of speculation in property and shares in the 1980s.

In 1993, divisions in the LDP led to major splits and the formation of a number of opposition groupings that produced the first non-LDP government led by Morihiro Hosokawa -- an unstable coalition which collapsed in 1994. Since then, repeated attempts have been made to form a coherent bourgeois opposition party -- the latest being the Democratic Party of Japan (DJP) or Minshuto, formed only three months ago.

The DJP increased its upper house strength from 38 to 47 seats and is seeking to form a broad opposition coalition including the Stalinist Japanese Communist Party (JCP) which boosted its seats from 14 to 23. The JCP is now the third largest party in the upper house.

In the wake of the elections, politicians and political commentators are blaming the failure of the Hashimoto government to deal with Japan's economic crisis for the widespread disaffection and the electoral losses. The Japanese economy has stagnated since the early 1990s, and contracted in the first quarter of this year.

The latest official figures reveal that the level of bankruptcies in Japan has more than doubled since last year. For the fourth straight month, the number of businesses going to the wall has been over 1,700 -- or one every half hour. The corporate collapses have produced rising unemployment -- now officially at 4.3 percent, the highest in the post-war period.

In big business circles, there is a fear that the protracted recession is not only affecting failing Asian economies but threatens to drag the other major industrialised countries, including the US, into slump. Their demands are for a more rapid economic restructuring, in particular of the banking system,

which will only accelerate the rise of joblessness and poverty.

Official unemployment figures grossly underestimate the actual level of joblessness, particularly among young people and older workers. The economic crisis is undermining the fabric of a society which has relied on the system of 'lifelong employment' to provide benefits and job security. Japan has a very limited form of welfare for the hundreds of thousands being thrown out of work.

Poverty is becoming more evident in Japanese cities as the unemployed become homeless and are forced to camp out on the streets. The Hashimoto government has also come under fire for its decision to increase the consumption tax from 3 to 5 percent, leading to increased prices for basic goods.

If the LDP presses ahead with the economic restructuring demanded by big business then it risks further alienating its own social base -- including in rural areas hard hit by falling demand for agricultural products and increased imports. Far from resolving the economic and political crisis in Japan, the latest elections and Hashimoto's resignation will only exacerbate the social and political tensions.

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