

Obuchi's difficulties prompt share plunge

Political instability in Japan

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The Tokyo share market plunged almost 3 percent on Monday and the yen fell 1 percent after Japan's Prime Minister-elect Keizo Obuchi was rebuffed by his first three choices for Finance Minister. Obuchi, installed as the LDP's new leader last Friday, had nominated the finance post as the most important in the Cabinet he is due to name on Thursday.

Yet such is the depth of the country's economic and political malaise that key figures in the ruling Liberal Democratic Party -- former chief cabinet secretary Seiuro Kajiyama, ex-prime minister Kiichi Miyazawa and LDP secretary general Koichi Kato -- all initially declined the post. In the first full day's trading since Obuchi's election, the Nikkei share index sank by 417.53 points to 15,944.36, its first close below 16,000 since June 30, and the yen dropped from 141.30 to the US dollar to 142.06.

The falls were sharpened, and the task of selecting a new finance minister was further complicated, when government officials revealed that the size of the banking sector's bad debts was closer to 87.5 trillion yen (about \$US650 billion) than the previous 77 trillion yen estimate. Even before that admission, Moody's Investor Services had decided last week to review the country's credit rating.

Kajiyama, one of two candidates defeated by Obuchi in the LDP ballot, had been strongly favoured by the international money markets to take the finance job. Moreover, Obuchi had encouraged speculation that Kajiyama would be appointed. On a brief visit to an ASEAN conference in Manila on Sunday, Obuchi declared: 'The post of finance minister carries political responsibility that could be greater than the prime minister. I am hoping to have someone from within the party who is well-versed in finance and capable of coping quickly with problems.'

Kajiyama reportedly turned down Obuchi's offer after the new LDP president snubbed Kajiyama in selecting party executives along factional lines. Miyazawa, 78, apparently raised doubts about his own appointment because he failed to head off Japan's economic downturn in the early 1990s. Kato, the LDP's central powerbroker and a prospective

prime minister, seemingly indicated that he felt too responsible for the party's heavy loss at the July 12 upper house elections that precipitated the resignation of Obuchi's predecessor, Ryutaro Hashimoto.

Obuchi was meeting party officials on Tuesday in a bid to find a candidate in time for Thursday, when the Diet (parliament) meets to rubberstamp the LDP's selection of the next prime minister and to endorse a new Cabinet.

He further disappointed the financial markets by ruling out exercising an option in Japan's constitution allowing the appointment of two 'specialist' ministers from outside the Diet. Global bankers had also pushed for the installation of Kenichi Ohmae, a former McKinsey & Co consultant, to open Japan's markets to international competitors.

Obuchi's own selection last Friday was greeted with disdain both among Japanese people and world business leaders because the 61-year-old is a lifelong product of the corporate-controlled factions that dominate the LDP. His absolute majority in the party room vote -- 225 for Obuchi, 102 for Kajiyama and 84 for one-time health and welfare minister Junichiro Koizumi -- was the result of factional manoeuvres by the same forces who installed Hashimoto only two years ago.

Obuchi is an old-style LDP politician. He inherited his parliamentary seat from his father and rose slowly through the party's ranks as an understudy to two prime ministers who were later forced to resign in corruption scandals. Kakuei Tanaka, who had to relinquish the prime ministership in 1974 during the Lockheed bribery scandal, established the faction Obuchi nominally heads. Noburu Takeshita, who then took over the faction, in turn, quit the prime ministership during the Recruit share affair of 1989.

Obuchi was also implicated in the Recruit scandal but extricated himself by returning all the money he had received when the influence-buying imbroglio erupted into public view. With this lineage, combined with a reputation for being an unimpressive consensus figure, it is no surprise that a TV Asahi poll found that Obuchi enjoyed the confidence of only 11.8 percent of people who were asked to

choose between him and the two other LDP candidates for prime minister.

His inability to mobilise popular support is compounded by the collapse of the LDP's approval rating to its lowest since the party was formed in 1955. A *Yomiuri Shimbun* poll recorded a rating of 20.8 percent. The LDP's vote in the upper house election was even lower -- it won support from only 14 percent of eligible voters.

Obuchi's selection failed to generate public enthusiasm despite unprecedented efforts to give the LDP ballot a democratic air by staging two televised debates between the three nominees and holding the final vote in public. The fact remained that each of the candidates was pledged defending the interests of corporate Japan.

In the course of the pre-ballot jousting, Obuchi spelled out the real content of the tax cuts that have become the pivotal demand of the money markets. He declared that he would make Japan's taxation system internationally competitive by slashing the corporate tax rate from 50 to 40 percent and the top individual tax rate from 65 to 50 percent. Those to benefit will be the wealthy, at the expense of the millions of working people who face rising unemployment and falling living standards.

Obuchi also vowed to reduce the number of government employees by one-fifth in 10 years and cut administrative costs by 30 percent. He gave no details, but the job losses would total nearly 250,000. At the same time, he pledged yet another 10 trillion-yen stimulus package to attempt to halt the recession, necessitating a suspension of Hashimoto's Fiscal Structural Reform Law, a permanent budget-cutting measure.

His opponents differed only in advancing even more draconian means of satisfying the financial markets. Kajiyama proposed stronger action to send ailing banks to the wall, whereas Koizumi advocated the privatisation of postal savings banks, life insurance funds and mail services.

Obuchi's tax cuts mirror the demands made on Tokyo by the Clinton Administration over the past six months, as Japan's economy -- which accounts for one-sixth of world output and two-thirds of Asia's -- has slid into recession. However, Obuchi made no mention of Hashimoto's plan for a 'bridge bank' scheme to shut down debt-riddled banks -- another key area of US pressure. That plan may now be blocked in the upper house.

US Secretary of State Madeline Albright, attending the ASEAN talks in the Philippines, issued a fresh demand for decisive action by Tokyo to deregulate the economy, as a supposed means of ending the slump that has persisted since 1989. This will mean shutting down major banks and businesses, sending the official jobless rate above the current record level of 4.1 percent, and triggering wider social

unrest.

With the LDP's prospects for winning the next general election, due before October 2000, looking dim, the international media is promoting efforts to cobble together an opposition coalition modelled on the 'Olive Tree' government of Prime Minister Prodi in Italy or the Blair Labour government in Britain, as the best means to implement austerity measures.

Naoto Kan, the leader of the recently formed Democratic Party, has been featured in magazines such as *BusinessWeek* and the *Far Eastern Economic Review*. However, Kan's group is an unstable collection of MPs, including conservative defectors from the LDP and breakaways from the Socialist Party.

Like Prodi, he is seeking support from the Stalinists of the Japanese Communist Party, who would be assigned the role of pressuring workers and their families to accept the sacrifice of jobs and conditions. The Stalinist party's leader Tetsuzo Fuwa has said the CP is willing to support Kan as prime minister, although Kan has been forced by conservative elements to rule out a coalition with the CP for now.

Kan has called for the dissolution of the Diet's lower house and elections as soon as possible. The LDP will resist such moves but must strike a deal with the opposition parties to get legislation through the upper house. Media and academic commentators are predicting that Obuchi may be forced to call an election as early as next year.

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