

# Challenge to Japan's prime minister reveals deep rifts in ruling circles over economic policy

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Japan's Prime Minister Yoshiro Mori may have survived Monday's no-confidence vote in the Diet or parliament but none of the issues that sparked the move against his government have been resolved. At the last minute, Koichi Kato, a faction leader in Mori's ruling Liberal Democratic Party (LDP), announced that he would not vote with the opposition on the no-confidence motion but would abstain instead. The motion was defeated 237 to 190 in the 480-seat lower house.

Last week Kato made an unusually blunt public statement criticising the Mori government over its economic policy and low opinion poll ratings, saying that he would either abstain or support a no-confidence motion. He immediately came under considerable pressure to back down. The LDP leadership warned that any MP voting against the government would be expelled from the party. Mori stated that if the no-confidence motion was passed he would call general elections rather than resign. Having just been through an election campaign in June, MPs were reluctant to face the voters again.

Kato potentially had the numbers to bring down the government. His own faction has 45 votes and his ally Taku Yamasaki heads a faction with another 19 votes. If they had combined with the 190 votes of the opposition parties, the no-confidence motion would have passed comfortably. However, Kato and Yamasaki were never able to command the loyalty of all their factional members, some of whom were induced to continue their support for the government.

After protracted backroom discussions with the LDP leadership, Kato announced what he called "an honourable retreat" just minutes before the parliamentary session. "Our strength was uncertain. I didn't want to force it and cause a lot of sacrifice," he said.

But the sharp divisions that cut through the LDP and its factions remain. Kato, Yamasaki and former health minister Junichiro Koizumi represent those within LDP demanding an end to government attempts to stimulate the Japanese economy through massive spending packages and the implementation of drastic economic restructuring measures. Like the opposition parties, he has attacked Japan's huge budget deficit—now amounting to about 10 percent of Gross Domestic Product (GDP)—and burgeoning public debt—officially 130 percent of GDP but according to some estimates as high as 250 percent.

Kato is highly critical of the LDP's traditional policies of economic regulation and the close ties between government, the state bureaucracy and big business. In the language of other rightwing zealots of market reform, he claims that Japan is a "socialist country" which needs "a Margaret Thatcher" to ram through economic deregulation and privatisation.

With another stimulus package of \$44 billion in public works programs due for debate in parliament, Kato seized upon Japan's continuing economic problems and Mori's rock bottom popularity to move against the government. "If we wait any longer," Hiroshi Ueki, a senior Kato adviser told *BusinessWeek*, "the Japanese economy will collapse."

Company bankruptcies are at a postwar high, the Nikkei stock index has slumped 21 percent since the beginning of the year and Japan is the world's most indebted country with debts of 645 trillion yen (\$US5.8 trillion). Despite a series of stimulus packages, the Economic Planning Agency recently issued a report downgrading its previous predictions of 2 to 3 percent for economic growth. Other estimates indicate that the growth rate may be as low as 1 percent for the year.

Mori was installed in April following the sudden and

ultimately fatal stroke suffered by former prime minister Keizo Obuchi. From the outset he has been plagued by scandals and so-called gaffes harking back to Japan's militarist past. At the elections in June, the LDP lost its lower house majority and now relies on the support of the conservative Buddhist-based New Komeito party and the New Conservatives party. According to the latest opinion polls, Mori's popularity rating has slumped below 20 percent and his disapproval rating has climbed to over 70 percent, spelling disaster for the party in upper house elections due in July next year.

Typical of Mori's rather bumbling approach are his attempts to portray his government as leading the way in introducing IT to Japan. In an editorial entitled "Embattled prime minister running on empty," *Asashi Shimbun* commented: "Although the so-called Information Technology (IT) revolution has become Mori's pet cause, he has repeatedly mixed up IT and IC (integrated circuit). This has happened too often for it to be dismissed as just a slip of the tongue. This is proof that he is advocating something he does not quite understand."

But the LDP's major factional leaders, who backed Mori against the Kato challenge, are wary about ending public works spending, much of which is aimed at bolstering support in the LDP's rural electorates, or a dramatic shift in economic policy. The LDP has held power virtually unbroken since it was formed in the early 1950s. Its policy hallmark has been national economic regulation presided over by key finance and planning ministries in close collaboration with big business—all of which has been undermined by the growing global integration of production.

A recent article in the US-based *BusinessWeek* magazine, openly supportive of Kato, commented on the quandary facing the LDP as follows: "In a weird way, you have to feel sorry for the LDP. It represents the interests of the nation's big construction companies, mom-and-pop retailers, protected domestic players like banks and manufacturers, and agricultural interests. The kind of shock-therapy reform needed to fix Japan—the end to bailouts, subsidies, and government meddling in the economy—doesn't just mean pain for this crowd—it means political exile for the LDP."

The first cracks in the LDP appeared in 1993 when significant section of the party split away calling for an electoral reform and a realignment of Japanese policies. As a result, the LDP briefly went into opposition. These breakaway groups now form the backbone of the major opposition party—the Democratic Party of Japan

(DPJ)—which, like Kato, advocates lower government spending. Kato outraged LDP powerbrokers by holding discussions over economic policy with the DJP earlier in the year.

He began his push against Mori last week not through the usual LDP method of backroom manoeuvres and deals but rather with a barrage of media interviews and messages over the Internet on issues of economic policy. He received a further boost from opinion polls showing his support at 54 percent. The DJP previously had offered to make him prime minister if he split and formed a coalition with opposition parties. After Kato failed to support the no-confidence motion, DJP leader Yukio Hatoyama responded scathingly, saying: "He betrayed the expectation of the Japanese people."

As for Mori, he is unlikely to last as prime minister. The Nikkei responded to Mori's survival on Monday by sliding nearly 2 percent to a 20-month low of 14,253 and the yen slipped against the US dollar. An editorial in business newspaper, the *Nihon Keizai Shimbun* noted: "Even within the mainstream factions that crushed Kato's revolt, many members say the Mori cabinet's days are numbered. Indeed, the factions acted in union to reject the no-confidence motion because they wanted to protect party rules, rather than the Mori cabinet."

Not wanting to face next year's upper house election with an unpopular leader, the LDP powerbrokers are expected to wait for an appropriate length of time and then find a suitable pretext to ease Mori out. Possible dates and likely replacements are being openly discussed in the media. Underlining Mori's precarious position, LDP Secretary General Hiromu Nonaka pointedly warned: "I hope the prime minister would greet each passing day with caution and humility."

Whatever the immediate fate of Mori or Kato, however, the challenge has brought to the surface conflicts within the LDP and political establishment as a whole that have been festering for much of the 1990s and are certain to erupt again.



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