

Leadership battle in Japan provokes debate over economic policy

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The contest within Japan's ruling Liberal Democratic Party (LDP) over the replacement of Yoshiro Mori as prime minister is developing into an uncharacteristically public debate between the opponents and advocates of the economic policies implemented by LDP governments over the past decade.

After weeks of speculation, Mori made a long-awaited announcement on April 6 that he would step down. An LDP conference, at which a vote for a new party leader will take place, has been brought forward from September to April 24. The decision will be made by the 346 LDP legislators in Japan's two houses of parliament as well as 141 votes from the 47 regional party branches—3 votes per branch. Providing the losing factions and the LDP's two coalition partners support the victor, he will be confirmed as prime minister in the parliament a few days later.

Four LDP factional leaders nominated on Thursday to contest the election. The frontrunner is former prime minister Ryutaro Hashimoto, who retook control of the dominant 102-member parliamentary faction last year. Also standing, in what is probably a ploy to maintain his influence in the next cabinet, is LDP policy research chairman Shizuka Kamei, whose 55-strong faction is traditionally aligned with Hashimoto's. The third nominee is Economics Minister Taro Aso, a member of the small faction headed by Foreign Minister Yohei Kono.

Unlike previous LDP leadership ballots, in which backroom negotiations decided the result long before the actual vote, the outcome of this contest is likely to remain uncertain until the April 24 count—mainly due to the fourth candidate, Junichiro Koizumi, a former Health and Welfare Minister and the chairman of Mori's 60-member faction.

Koizumi resigned this week from the Mori faction. He is calling for cross-factional support and declared this week that, if elected, he would form a cabinet without any reference to faction leaders. His slogan is “Change the LDP, change Japan”.

Koizumi claims to have significant backing and is being presented in the media as the “reform” candidate. Makiko Tanaka, an LDP parliamentarian who is the daughter of a former prime minister and currently Japan's most popular politician, has publicly supported his candidacy. Koichi Kato, who led an aborted attempt inside the LDP to bring down Mori last November, also backs him.

Within the LDP, Koizumi is considered an eccentric and a maverick. His nickname is “space alien” because he advocates the privatisation of the postal service—a policy considered out of the question by the major LDP factions. In the early 1990s he was

associated with Koichi Kato and shared his support for the open market policies implemented by Margaret Thatcher in Britain. Last November, however, he opposed Kato's call to support an opposition no-confidence motion in the Mori government.

Despite concerns over his reliability and scepticism that he can win the leadership ballot, Koizumi has been afforded favourable coverage by the Japanese newspapers *Yomiuri Shimbun* and *Asahi Shimbun* as well as the *New York Times* and the *Financial Times*. His decision to step outside the factional framework along with his economic restructuring proposals have turned the leadership battle into a debate over the state of the Japanese economy.

Reflecting sharply the long-term global tendency toward deflation—marked by falling rates of profit, overproduction and falling prices—Japan's economy has never recovered from the stock market collapse and recession of the early 1990s.

Successive LDP governments, dominated by the “mainstream” factions of Hashimoto and Kamei, have protected deeply indebted banks and corporations from collapse by massive public spending and cash injections into the banking system, in the hope that conditions would improve. Their motives have been to shore up the LDP's base of support among construction companies, retailers, small business and rural producers, and, just as importantly, to avoid the potentially explosive consequences of directly confronting the working class.

With the government pump-priming the economy, companies have until recently resisted demands for the dismantling of the country's life-time employment system and maintained relatively high wages that have ensured relative class peace in Japan. Japanese capitalism has literally staggered on, deferring any concerted attempt to carry out the type of drastic restructuring implemented in the US over the past 20 years.

But the economy remains in the mire. Public debt has reached \$US6 trillion and is rising, with interest payments consuming 70 percent of taxation revenue. The banking system, still laden with bad debts, is now threatened with a meltdown following the fall in world stock prices, and Japan faces the prospect of a protracted recession in the United States, its major trading partner.

The political response within the capitalist class, as this ultimately untenable situation has gone on, has been growing support for a radical turn in policy. Instead of protecting indebted or unprofitable corporations, strident demands are being made that they be allowed to go to wall, that the banks be cleared of bad debts, wages and working conditions cut and the economy

restructured to benefit the more efficient companies—an agenda labeled “creative destruction” by the corporate media.

The essence of these demands is a direct assault on the Japanese working class. The bankruptcy of thousands of companies would drive unemployment well into double digits. Financial analyst Andrew Smithers recently estimated that the Japanese salaries and wages bill would need to fall by 40 percent to restore profitability throughout the economy. Such a precipitous decline in living standards would be incompatible with even the constricted forms of democracy that have prevailed in the post-war decades.

It is this program that Koizumi is tentatively advocating—hence the sympathy for his candidacy in the Japanese and international capitalist press. His key policies announced on Wednesday were structural reform to force corporate bankruptcies, privatisation of the postal savings system to pay off state debt and the slashing of public spending to minimise further debt accumulation. Addressing a press conference, Koizumi predicted: “There will be companies going bankrupt and increased unemployment, but if we are fearful of unemployment, we will never see the recovery of the Japanese economy.”

In a direct attack on previous LDP policy, Koizumi said: “There are people who say emergency economic measures should come first, but the reason the economy is not recovering is the lack of structural-reform policy.” Earlier in the week he declared it was necessary for Japan to go through “negative economic growth”—or recession—before it could begin to expand again.

Koizumi also openly hinted that he was ready to form a coalition government with the main opposition Democratic Party of Japan (DPJ) or other opposition parties, such as the Social Democrats and Ichiro Ozawa's Liberal Party.

The LDP presently governs in coalition with the small business and Buddhist-based New Komeito Party, which is hostile to the policies outlined by Koizumi and broadly supportive of pump-priming the economy. The DPJ, by contrast, which consists of MPs who split from the LDP in 1993, advanced a similar program to that of Koizumi in last year's lower house elections.

According to Japanese analysts, it is possible that Koizumi will win the majority of the LDP branch votes, particularly the urban branches. Far more threatening to the dominant factions, however, is the prospect that younger parliamentarians will ignore their factional leaders. According to media reports, a significant portion of the Hashimoto faction spoke against his nomination. One faction member, Yoshitaka Shindo, told *Mainichi Shimbun*: “Even if bosses demand all members of the Hashimoto group vote for him, I cannot automatically say yes.”

In recent years, a number of cross-factional groupings, such as the “LDP for Tomorrow” group or “young Turks”, have emerged in the LDP calling for measures similar to those of Koizumi.

In contrast, Hashimoto is proposing a continuation of past policies and has supported the economic package adopted by Mori last week. Ostensibly aimed at dealing with the banking crisis, the measures were denounced in international financial circles as inadequate.

Hashimoto first became prime minister in 1996, when Japan was apparently recovering on the back of the boom in the United States. At that time he advocated a far-reaching restructuring of the

government budget and the banking system and was supported by Koizumi, Kato and other “reformers”. He raised indirect taxes and set in motion a deregulation of the banking system that enabled foreign competition. While welcomed in certain business circles, the tax rises triggered deep popular opposition to the LDP.

By 1998, as the effects of the Asian economic crisis plunged Japan back into recession and vested LDP interests began to suffer, Hashimoto abandoned his restructuring plans and initiated unprecedented government deficit spending to shore up economic activity. In 1998, after the ruling party suffered major losses in upper house elections, he was forced to resign.

His return to the political limelight has been accomplished by giving reassurances to the major party factions that he will not attempt to pursue a restructuring agenda. In a somewhat grovelling overture to the LDP's traditional base, he has publicly repudiated the tax increases, spending cuts and other limited measures implemented while he was prime minister. So far he has outlined few concrete policies, restricting himself to vague promises that he will work out solutions in 100 days, and carry them out in another 100 days.

One indication of the direction of a Hashimoto administration has been given by Kamei, whose support Hashimoto requires to defeat Koizumi. Kamei, one of the most fervent advocates of traditional LDP pump-priming, has called for cuts to the consumption tax, income tax and inheritance tax, combined with another supplementary budget to finance more public works. Taro Aso, who is being backed by two small LDP factions, is also calling for further government spending, warning that: “Japan will probably face large scale deflation if the government does not borrow.”

The prospect of another LDP administration that continues to resist demands for restructuring has produced sharp warnings of economic and political turbulence. On April 6 *Asahi Shimbun* editorialised: “Japan needs prompt reform in every respect and the LDP has been standing in the way of such reform... If nothing happens, Japan will disintegrate and the LDP will be the cause.”

Within the party, there are signs that the differences over economic policy, reflecting deep divisions within Japanese ruling class, cannot be suppressed indefinitely. Hinting at the prospect for a split, Makiko Tanaka has declared that electing Koizumi and overthrowing the control of the dominant factions is the LDP's “final card”.



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