

Koizumi's agenda for Japan: economic austerity and rightwing nationalism

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22 May 2001

Since becoming Japan's prime minister on April 26, Junichiro Koizumi has made clear that his new administration intends to pursue the program of far reaching free market restructuring that won him the backing of significant sections of big business and the media during his challenge for the leadership of the ruling Liberal Democratic Party.

Having broken with the LDP's traditional factional system to win the top job, Koizumi is making a populist appeal over the heads of the party's factional chiefs for public support for his measures as the only way of reviving Japan's economy. The new 17-member cabinet reflects Koizumi's orientation and the manner in which he came to power—it features prominently advocates of economic restructuring, factional independents critical of the LDP leadership, representatives of the so-called non-mainstream factions and a number of non-parliamentarians.

The fact that Koizumi, previously considered an eccentric outsider, won the prime ministership reflected the deep concerns in Japanese ruling circles that the economic policies of previous LDP administrations had become untenable. A decade of Keynesian-style deficit spending to shore up vested business and rural interests connected with the major LDP factions has pushed the country's public debt to 666 trillion yen or 130 percent of Gross Domestic Product (GDP).

In his inaugural address to the parliament on May 7, Koizumi spelt out the economic agenda of his newly formed cabinet: the elimination of non-performing loans from the financial system within two to three years; the restructuring of industry and state-owned assets; and bringing public debt under control.

Estimates of how much bad debt is held by Japanese banks range from 30 trillion to 110 trillion yen (\$US250 to \$916 billion). The banks have resisted writing off much of their debt because to do so could place many in technical bankruptcy. As a result, thousands of insolvent firms, labelled the "walking dead", have continued to operate. According to Brian Murdock of investment house Merrill Lynch, insolvent or otherwise unviable companies comprise up to one third of the Japanese economy.

To clean up the financial system, particularly within a few years, will require the forced merger of cash-strapped banks and financial institutions, the injection of public funds into bank balance sheets and the liquidation and firesale of thousands of indebted companies. Unofficial estimates cited in the London-based *Financial Times* are that 1.5 million jobs will be shed as a direct consequence of reviving the fortunes of the banks, pushing the official unemployment rate over 10 percent.

Bank restructuring is the responsibility of the new State Minister for Financial Policy, Hakuo Yanagisawa, a long-time advocate of deregulation, and Finance Minister Masajuro Shiokawa. While unknown in financial circles, Shiokawa's political credentials are that he is a factional powerbroker within the LDP and loyal to Koizumi.

In charge of the powerful Economy, Trade and Industry ministry is Takeo Hiranuma, the son of a World War II prime minister. Hiranuma's brief is to promote foreign investment into Japan and the restructuring of industry to enhance its international competitiveness. The government's

model is the takeover and restructure of Nissan by French automaker Renault that is projected to cost more than 20,000 jobs.

A total of 77 state-owned corporations are slated for privatisation. The Minister for Administrative Reform, Nobuteru Ishihara, who is the son of ultra-nationalist Tokyo Mayor Shintaro Ishihara, told the *Financial Times*: "In the last 50 years Japanese society has created a spider's web of public institutions. But Prime Minister Koizumi's opinion is that we should leave to the private sector whatever can be left... We will consider abolishing, privatising or consolidating these institutions. Public institutions should not be squeezing out the private sector."

The prime target is the corporatisation and ultimate privatisation of the post office savings system, with deposits approaching \$US3 trillion. If carried out it would end Japan's century-old tradition of concentrating private savings in this state-controlled institution.

Koizumi's economic policies have been welcomed by financial markets in Japan and internationally. Among the primary beneficiaries will be foreign investors who are set to capitalise on the opening up of the economy. US investment houses such as GE Capital, CityBank, Merrill Lynch, J.P.Morgan and Goldman Sachs are believed to have bought \$US39 billion of assets at bargain-basement prices in the last three years.

To slash the government's budget, Koizumi has installed Heizo Tanenaka, a high-profile zealot of the free market, as the State Minister for Economic, Fiscal and IT Policy. Tanenaka is not a politician, but a private researcher for a state economic thinktank. An admirer of Britain under Margaret Thatcher, he has authored several books on restructuring the Japanese economy.

In the short-term, the Koizumi administration will curtail government bond issues for the next year to the level of 30 trillion yen or \$248 billion. Tanenaka's ministry is drawing up a long-term strategy for reducing public debt, which will focus, in particular, on cutbacks to the public works spending that has kept afloat much the construction industry.

Koizumi has also declared the state pension and health system will be reorganised on the principle of "self-help and self-sufficiency". Analysts forecast that to make the pension system self-sufficient—that is, to finance itself without the injection of government funds—the entitlement age will need to be raised and benefits reduced.

The mass media is making every effort to portray Koizumi as a popular and strong leader possessing the overwhelming mandate of the Japanese people. According to opinion polls, the new government enjoys an approval rating of between 80 and 90 percent—compared to the single digit figures of the previous prime minister Yoshiro Mori.

The current popular support for Koizumi is, however, largely based on image, media hype and the current lack of comprehension as to the real impact of the government's policies once implemented. Koizumi's unconventional appearance and outspokenness are in stark contrast to traditional LDP politicians.

Overall the new cabinet seeks to project a modern and reforming face, with five female ministers and an average age that is one of the youngest

in postwar history. The major LDP factions, which previously dictated government policy, have been largely excluded. Long-standing powerbrokers like Hiromu Nonaka, Ryutaro Hashimoto and Shizuka Kamei have been pushed into the background and appear to exert no day-to-day influence over the affairs of state.

But Koizumi's position remains extremely tenuous. While he was able to win the prime ministership by appealing to the LDP membership, the factional chiefs continue to hold sway over the majority of LDP parliamentarians. Along with the LDP's coalition partner, the Buddhist-based New Komeito, the major factions have opposed free market policies that will adversely impact on their constituency among construction and retail concerns, sections of small business and rural producers. Restructuring has been likened to an act of political suicide on the part of the LDP, which has governed Japan almost unbroken since 1955. Enormous pressure will be brought to bear on Koizumi to modify his economic program.

The administration is also acutely aware its agenda will produce social tensions and potential conflicts with the Japanese working class. There are already indications of alarm. A recent poll by the *Daily Yomiuri* newspaper found that 69.9 percent of Japanese workers fear losing their job or having their pay reduced. The same survey found that 43 percent of households were cutting their expenditure to prepare for harder economic times.

In order to carry through the agenda demanded by the corporate elite, Koizumi has no choice but to seek to develop a base of support outside of the LDP and parliament, and one that will stand by his government against the opposition of working people.

In doing so he is resting heavily upon his Foreign Minister Makiko Tanaka. The high profile daughter of a former prime minister, Tanaka won widespread support during the 1990s through her demagogic denunciations of the old LDP hierarchy and its policies. She currently ranks as the country's most popular politician.

Tanaka and others have been attempting to develop a constituency for free market policies among sections of the middle class, particularly those in urban areas, whose social position has deteriorated since the massive stock and property market crash at the beginning of the 1990s. These social layers have seen their own assets and security slide even as governments have poured huge sums of money into a succession of failed bailout packages.

Shares, businesses and real estate are still worth only 40 percent of their 1990 values. Millions of homeowners owe more on mortgages than their property is worth. Last year corporate bankruptcies took place in unprecedented numbers and scale. Facing greater competition, employers have eliminated lifetime employment guarantees to managers and professionals and reduced salaries.

At the same time, Koizumi is appealing to the extreme nationalist rightwing of Japanese politics, which, with Shintaro Ishihara as its best-known representative, has emerged in recent years as a significant force. It is significant that in a period of just a few weeks, Koizumi has been able to transform into legitimate topics for public debate what were previously only discussed publicly by mavericks like Ishihara or by open supporters of pre-war Japanese militarism.

Far less categorical statements made last year by the prime minister Mori about the role of the emperor and Japan's wartime history were denounced as scandalous "gaffes". Koizumi's remarks, however, have been uncritically published and welcomed by the press, especially Japan's major daily newspaper, the *Yomiuri Shimbun*.

Koizumi has asserted his intention to restore the role of the military and for the first time in the postwar period, has appointed a former army colonel, 43-year-old Gen Nakatani, as Defence Minister. He has also called for the removal of the pacifist clause in the Japanese constitution, Article 9, which prohibits the military from engaging in overseas combat.

The thin social layer to which Koizumi is appealing is reflected in a recent survey in the *Asahi Shimbun*, which showed only 26 percent support for abolishing Article 9. Hostility to any revival of militarism runs deep in Japan, particularly in the working class.

In his May 7 speech to parliament, Koizumi pledged to strengthen immigration controls to guarantee "safety", echoing both prewar xenophobia and remarks by Ishihara that foreigners are responsible for crime in Tokyo.

Most controversially, Koizumi intends to worship in an official prime ministerial capacity at the Yasukuni Shrine to the war dead, including convicted war criminals such as World War II prime minister Hideki Tojo. He has rejected protests by China and the Koreans over his symbolic embrace of Japanese wartime militarism.

Koizumi has also dismissed complaints from China and South Korea over Japanese school textbooks that distort the truth about the country's colonial past. It is noteworthy that Koizumi has foreshadowed changes to the education system to inculcate nationalism and "raise children with pride and self-awareness as Japanese".

Koizumi's response to the news that crown princess Masako is pregnant is also significant. He has stressed the central importance of the Emperor to the political fabric of Japan and hinted that the imperial family should adopt a more public role. Following Japan's defeat in 1945, the Emperor, in whose name Japanese capitalism launched its invasions of China and South East Asia, was reduced to the role of constitutional monarch and largely kept in the background.

While he attempts to present himself as a political outsider, Koizumi's entire political career and outlook has been shaped by the LDP and its factions. He is connected to the Fukuda group in the LDP, also known as the "hawk" faction, which was initially formed by Nobusuke Kishi, Japan's prime minister from 1957 to 1960. During World War II, Kishi served as minister for munitions in Tojo's cabinet and was imprisoned in 1945 as an alleged war criminal. As the Cold War began, he was released by the US occupation authority and encouraged to revive his political career. He played a central role in forming the LDP in 1955.

In 1960, with US backing, Kishi attempted to revise Article 9, provoking massive working class and student demonstrations across Japan. Days of street battles only ended when Kishi resigned as prime minister, US president Eisenhower cancelled a visit to Tokyo and the constitution was left unchanged. Kishi's faction, including Koizumi's father and Koizumi himself, was the core LDP grouping that pushed for increases in military spending, opposed the recognition of the Peoples Republic of China in 1972 and retained the hope of changing the constitution.

Despite presenting himself as having broken with traditional LDP structures, Koizumi relies heavily on this "hawk" faction. His cabinet secretary is Yasuo Fukuda, the son of former prime minister Takeo Fukuda, from whom the faction took its name. Two senior ministers and two of Koizumi's three deputy cabinet secretaries are drawn from the same grouping.

The advent of Koizumi is likely to be the prelude to further realignments in Japanese politics as the ruling class seeks to establish a political base for its economic agenda. The possibility has already been canvassed that, in the face of opposition from within the LDP, Koizumi should dissolve both houses of parliament and call elections. Such a step could split the LDP and result in the emergence of a new right-wing formation that would include figures like Ishihara and Ichiro Ozawa of the Liberal Party as well as sections of the opposition Democratic Party of Japan.



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