

Koizumi calls snap election after setback over Japan Post privatisation

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Japanese Prime Minister Junichiro Koizumi dissolved the lower house of parliament on Monday and called early elections for September 11. The decision was Koizumi's response to the rejection by the parliamentary upper house of his government's legislation to privatise Japan's postal system.

The bill has provoked a rift inside the ruling Liberal Democratic Party (LDP). It was defeated after 22 LDP members crossed the floor and voted with the opposition. Last month in the lower house, 37 LDP members voted against the legislation.

Koizumi's reaction has triggered criticism. An editorial in the conservative *Yomiuri Shimbun* directly questioned whether he had "violated the accepted process of constitutional government" by calling a lower house election due to a vote in the upper house.

The secretary-general of the main opposition Democratic Party of Japan (DPJ) Tatsuo Kawabata voiced concern at the autocratic character of Koizumi's actions. He told a press conference: "It is extremely abnormal to tell lawmakers to vote for the bills or parliament will be dissolved."

There will be no change in the composition of the upper house after September 11, holding out the prospect that privatisation legislation will be simply defeated again.

Koizumi intends to use the election primarily to carry out a purge of his internal party opponents. Shizuka Kamei and Mitsuo Horiuchi, two LDP powerbrokers whose factions derive considerable funding and political support from the postal bureaucracy and the 400,000-strong workforce, opposed postal privatisation. Both they and their lower house supporters who voted against the legislation have been disendorsed as LDP candidates. Koizumi, in his capacity as LDP president, intends to nominate pro-privatisation candidates to stand against them.

The purge is a further major step in the transformation

of the LDP, which has governed Japan for most of the past 50 years. Since becoming prime minister in 2001, Koizumi, with the backing of the country's most powerful financial and corporate interests, has worked to break up the LDP's tightly-knit and nepotistic factions. Legislators are now under intense pressure to bow down to a line dictated not by their factions but by Koizumi and his increasingly presidential-style of leadership.

The openly-stated aim is to change the LDP from a party based on national economic regulation into a political vehicle for radical free market restructuring. As in the case of Kamei and Horiuchi, the internal opposition comes from LDP faction leaders and legislators who derive their political support from entrenched interests that have depended on heavy protection and subsidies.

The privatisation of Japan Post is viewed in ruling circles as essential to this restructuring agenda. Along with the reassertion of Japan as a global military power and the promotion of Japanese nationalism, it has been Koizumi's main policy plank since he became prime minister in 2001.

For generations, Japan Post has functioned as the primary savings bank and insurance broker for millions of Japanese and as the mechanism for channelling these private savings to the state. While paying only a low rate of interest, all deposits are fully government-guaranteed and it has over 24,000 branches, reaching into every the corner of the country.

Currently Japan Post's savings component holds deposits exceeding 214 trillion yen (\$US1.93 trillion), while its insurance business has deposits of over 100 trillion yen. As a result, it is by far the country's largest financial institution, with holdings greater than the four largest banks combined.

Japan Post is prohibited from investing like other financial institutions and is permitted only to purchase bonds issued by government authorities. In the postwar

period, the huge reservoir of postal savings facilitated the state-sponsorship of export industries and Japan's revival as a leading economic power.

Over the past 15 years, however, under conditions of economic stagnation, governments have been able to use postal savings to finance enormous budget deficits, largely used for public works programs such as road and bridge construction. Japan's annual spending on public works is close to 5 percent of gross domestic product (GDP)—compared with a 3 percent average in other industrialised countries.

In the eyes of free market rationalists, the government's ability to borrow on the cheap from Japan Post has been a major obstacle to the wholesale deregulation of the economy and an historic reduction in public spending. Even after budget cuts under Koizumi, the government is still running a deficit close to 4.8 percent of GDP. Public debt has soared to the astronomical level of 700 trillion yen (\$US6.3 trillion), or 164 percent of GDP.

An August 10 editorial in the *Japan Times* spelt out the core aim of postal privatisation. "Money held by the savings and insurance services components has been used to buy bonds issued by the government... a choking off of the money flow was considered an important step to reduce the government's tendency to rely on borrowed money and to bring self-restraint to the government's financial behaviour," it commented.

After passing privatisation legislation, the Koizumi cabinet intends to slash public works spending and government contributions to retirement pensions and health care. Measures already introduced in 2004 began the process of making individuals responsible for a far greater proportion of their retirement funds and medical treatment.

The plan rejected by parliament involved the break-up of Japan Post into four corporations by 2007, controlled by a partially state-owned holding company. The savings and insurance components would function separately to the postal service, with the aim of fully privatising them by 2017. In the process, tens of thousands of jobs would be shed, and unprofitable branches servicing remote areas shut down.

The long-term consequence would be the diversion of billions of dollars from state to private sector investment, as the privatised institutions look to higher yielding areas than government bonds. The changes would also create two new financial juggernauts exerting Japanese influence in the world market.

The September 11 election is a major political gamble

for Koizumi. The privatisation and budget cutting agenda is widely opposed in the working class, as it will lead to the loss of tens of thousands of jobs. Tensions are already rising due to the growth of social inequality. More than a third of Japanese people now define themselves as "lower class" or poor. There is also widespread opposition to Koizumi's dispatch of Japanese troops to Iraq and his promotion of right-wing nationalism, which has created sharp tensions with China.

The opposition DPJ intends to contest the election on the slogan "there are more important things". DPJ support increased significantly in the last lower house and upper house elections, raising the possibility that the LDP could lose office for only the second time in 50 years. DPJ president Katsuya Okada declared on Monday: "This is our chance to grab power from the LDP. This is the most important general election since the end of World War II."

The DPJ's program, however, is barely distinguishable from the LDP's. It advocates equally ferocious cutbacks to public spending and is in agreement with postal privatisation, only at a later date. The lack of political alternatives was reflected in an opinion poll this week by *Asahi Shimbun*, which found 29 percent support for the LDP, just 15 percent for the DPJ, and 38 percent undecided.

Powerful financial, corporate and media concerns are rallying to shift the large undecided vote behind the LDP. Koizumi is once again being promoted as a courageous radical prepared to take on vested interests and push through changes, while the DPJ's ability to form a government is being questioned in the media. Tokyo's Nikkei stock market index soared this week to its highest level in nearly two years, on perceptions that Koizumi will succeed in both purging the LDP of his opponents and winning the election.



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