Japan: By-election defeat points to growing crisis of Fukuda government

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The victory of the opposition Democratic Party of Japan (DPJ) in the lower house by-election for Yamaguchi prefecture on April 26 has delivered a major blow to embattled Prime Minister Yasuo Fukuda and the ruling Liberal Democratic Party (LDP).

The LDP candidate, Shigetaro Yamamoto, gained just 94,404 votes, much less than the DPJ's Hideo Hiraoka, who won 116,348 votes. The results were in line with pre-election polls. The election was widely regarded as a referendum on the Fukuda government, whose public poll rating has fallen to 25 percent—the same level as his predecessor, Shinzo Abe, prior to his resignation last September. At the time of his installation, Fukuda enjoyed a 70 percent of approval rating. Now there are calls in the LDP to replace him.

The defeat has forced Fukuda to cut back a major trip to Europe this month, removing Britain, Germany and France from the schedule, and leaving only Russia. DPJ secretary-general Yukio Hatoyama declared that his party had "made a leap towards the birth of an Ozawa government". Ichiro Ozawa, the DPJ leader, was a LDP heavyweight who broke from the party in the 1990s. The DPJ has been pressuring the LDP to call an early lower house election by blocking key government bills. Sections of the Japanese financial elite now see the DPJ as a serious alternative to LDP, which has governed Japan throughout most of the post-war period.

Fukuda's crisis is not just of his own making. Abe was forced to resign after a devastating election defeat last July, which gave the DPJ control of the upper house for the first time. The immediate cause was Abe's failure to renew an "anti-terrorism" law introduced by former prime minister Junichiro Koizumi authorising the deployment of Japanese naval ships to the Indian Ocean to provide fuel for the US-led occupation of Afghanistan. The law was designed to circumvent the country's pacifist constitution, which bans Japan from using military force in international disputes. Tokyo's real aim is not to fight "terrorism", but to strengthen the US-Japan alliance, in order to aggressively advance Japan's interests in Asia and beyond. The majority of Japanese oppose Tokyo's involvement in the US-led military interventions in Afghanistan and Iraq.

Fukuda rammed through the Afghan legislation in January, using the LDP's two-thirds majority in the lower house for the first time to override the DPJ-controlled upper house. Although constitutional, the move was a clear break with the consensus politics of the past five decades. The DPJ's tactical opposition to the Afghan mission stemmed from concerns in sections of the ruling elite that Japan was being dragged into reckless US military adventures.

As well as widespread antiwar sentiment, discontent is growing among workers, youth and pensioners over the decline of living standards and widening gap between rich and poor. Fukuda introduced a new healthcare scheme last month which forces elderly people over 75 to pay more for medical services. The measure had a direct impact on the Yamaguchi by-election. Yasunori Sone, a political science professor at Tokyo's Keio University told Bloomberg: "Fukuda has lost support from the elderly people who used to be his core supporters. This result will further depress his popularity".

Fukuda further fuelled public anger on Wednesday by again using the LDP's two-third majority in the lower house to reinstate a 25 yen per litre "temporary" tax on petrol. The law had been in place since the 1970s, but expired last month after the DPJ voted against its extension. The DPJ's concern was not consumers, but to remove a 2.6 trillion yen revenue for the road construction lobby in the LDP's electoral districts in rural Japan. The DPJ advocates cutting public spending and lowering petrol prices to boost sluggish consumer spending.

Japan's economy, the world's second largest, is in trouble. Weakening US demand, surging oil prices and the appreciation of the yen against the US dollar have dealt a blow to business confidence. The *Nikkei* confidence index based on more than 10,000 large Japanese manufacturers has fallen from 19 in December to 12 in March. Industrial production in Japan fell 3.1 percent in March—the largest monthly drop in five years and well above market estimates of 0.8 percent. The job ratio fell to 0.95 (95 jobs for every 100 applicants) last month, down from 1.07 in June.

The LDP's decision to renew the petrol surcharge will compound the widespread hardship facing working people. During the by-election campaign, the LDP argued that rural subsidies must continue or the countryside will fall further behind the cities. The DPJ, on the other hand, called for an end to the "old-style" LDP politics of using public funds to buy votes, and for "change" to create a new Japan, and supposedly improve the livelihood of working people. Neither party has a solution to the country's deepening social crisis.

The current crisis of the LDP can be traced back to former prime minister Koizumi who held power from 2001 to 2006. In the 15 years of economic stagnation following the collapse of Japan's asset bubbles in early 1990s, Koizumi's predecessors had been unable to carry out the "market reform" demanded by the ruling elite. The result was a string of short-lived, unstable governments. The installation of Koizumi, who had always been regarded as a maverick, was a gamble. He had been able to cultivate support from layers of the urban middle class and youth with his unconventional, anti-establishment persona, behind which he pushed through retrogressive economic policies and revived right-wing Japanese nationalism.

Koizumi exploited US President Bush's "war on terror" to dispatch troops to Iraq, the first time Japanese forces had been in a war zone

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since World War II. He has also initiated major “free market” reforms, including the privatisation of Japan Post, the country’s largest public financial institution. Koizumi’s popularity reached its peak in 2005, when Koizumi won a landslide victory after he called a snap lower house election on the issue of privatisation. His popular support did not last, however. In his last year in office, debates over social inequality and the new “underclass” emerged in Japan for the first time. Koizumi quietly pulled Japanese troops out of Iraq, in order to smooth the way for Abe’s coming to power.

Abe and Fukuda were both compelled to moderate the LDP’s agenda. Koizumi’s embrace of the old symbols of Japanese militarism, including such as his annual public visits to the notorious Yasukuni shrine, came at the price of deteriorating relations with China. Japan’s limited economic recovery, however, depended on investment and the sale of capital good to China. Koizumi’s successors have been intent on patching up relations with Beijing and have avoided visiting the Yasukuni shrine.

Both Abe and Fukuda are also far more dependent on the LDP old guard than Koizumi. For decades, the LDP machine has been based on government spending, particularly in rural areas, to maintain its electoral support. Koizumi sought to destroy the “old LDP” and its factional apparatus, which has reasserted itself under his successors. Abe reinstated LDP parliamentarians who Koizumi had purged from the party after they voted against his postal privatisation.

As for the DPJ, its victory in last weekend’s by-election was not the product of public support for its economic agenda, which is aggressively pro-market. The DPJ represents sections of Japanese big business, which regard the LDP’s continuing support for national economic regulation and protectionism as incompatible with Japan’s needs in today’s globalised economy.

A standoff over the appointment of a new Bank of Japan (BOJ) governor in March revealed the deep divisions within ruling circles over economic policy. Former BOJ governor Toshihiko Fukui retired on March 19. The DPJ twice voted against Fukuda’s nominees for the post, leaving the BOJ without a governor for the first time since the end of World War II. The crisis was only ended on April 9, when Masaaki Shirakawa, the third nominee, was approved by the DPJ.

If the decision had been delayed another day, Japan would have had no central bank governor to attend the G-7 financial meeting in Washington. The imbroglio made Japan something of a joke in international financial circles, given that all central banks are facing urgent decisions in dealing with global economic turmoil. Behind the standoff, the DPJ was pushing for more fundamental changes in economic direction.

Japan Times commented on March 26: “The fact is that the BOJ governorship is a mere blip when it comes to the real economic and political challenges that Japan has to face over the few decades, if the leaders flunk them, as they have flunked the simple BOJ test, the country is in for a really rocky ride downhill.” The article noted that the previous five years of recovery had been achieved with “big flaws”—excessive dependence on exports, weak domestic consumption and high retained corporate profits and the highest public debt of any industrialised country in history—160 percent of the gross domestic product (GDP).

The globally-oriented capital is pushing for complete deregulation of Japan’s financial market in order to attract some of the huge flows of global speculative capital. To integrate Japan into the global economy, more tax concessions must be given to foreign and domestic investors and, therefore, savage cutbacks to the public funding of healthcare, welfare and education are being demanded. More women must enter the labour force and pay rates must be slashed to boost Japan’s competitiveness. Otherwise, as the *Japan Times* warned, the country will become a second rate power in the coming decades.

Professor Takatoshi Ito, a former advisor to Koizumi, told the Foreign Correspondents’ Club of Japan on April 17 that the future of Japan was to become the “London of the East”—an international financial centre with lax regulation and a tax haven for wealthy global investors. “This is our last chance”, he said. During the Koizumi years, the government started the kind of sweeping restructuring carried out by Margaret Thatcher in Britain and Ronald Reagan in US in the 1980s. However, under Koizumi’s two successors—Abe and Fukuda—economic reform has stalled.

The *Economist* on March 19 noted that a new party may emerge from “modernising” layers within the LDP and DPJ—“those who favour clear policies, structural reform and fiscal probity”. More than 100 politicians from both the LDP and DPJ formed a discussion group called Sentaku in March. The leading LDP figures of this tendency are closely associated with Koizumi, including Kaoru Yosano, his former economic minister.

“A champion of Koizumi-style reforms,” the *Economist* wrote, “Mr. Yosano himself remains enigmatic. So does Mr. Koizumi, who once vowed to destroy the old LDP. He retired to the backbenches in 2006 but has started giving public speeches once again. His long shadow continues to haunt Japan’s politics. One word from him could be enough to make—or break—any palace coup”.

In the aftermath of Yamaguchi by-election, Yosano ruled out an immediate challenge to Fukuda, but has been reportedly amassing the support of “reformers” such as the “Koizumi Children”—those who were elected in the landslide lower house election in 2005. Fukuda may survive the immediate crisis, but his longer-term prospects look bleak as Japanese ruling elite seeks to fashion a political mechanism to push through its long-delayed agenda of “market reform” amid growing signs of global recession.

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