

Japan's prime minister quits amid signs of economic downturn

Koizumi's record

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Confronting a slowing economy and continuing political deadlock, Japanese Prime Minister Yasuo Fukuda abruptly resigned on Monday after just under a year in power. While Fukuda expressed the hope that his resignation would prevent “a political vacuum,” his successor will face the same problems that plagued his term in office.

The ruling Liberal Democratic Party (LDP) lost control of the parliamentary upper house in July 2007, precipitating the resignation of former Prime Minister Shinzo Abe—also after less than a year. Since taking over last September, Fukuda has faced repeated calls for an early lower house election from the opposition Democratic Party of Japan (DPJ), which has used the upper house to block a series of government measures.

Fukuda, who came to office with a reputation for supporting market reform, told a media conference on Monday night: “It is a fact that it took very long to decide on anything... I felt that we must particularly stress the importance of the economy. If it will help even a little bit to make the parliamentary session go smoother, I decided that it might be better for someone other than me to be in the lead.”

The government announced an 11.7 trillion yen (\$US107.5 billion) stimulus package last Friday in a bid to revive the country's stagnant economy and its own political fortunes. Financial commentators generally responded skeptically, declaring that the measures were aimed at boosting the LDP's standing and would do little to stimulate the economy. Japan's GDP shrank at an annualised rate of 2.4 percent in the second quarter of 2008—the largest contraction in seven years.

The package came on top of a major cabinet reshuffle at the beginning of August that was aimed at giving the government a political lift. A lower house election is due before September 2009 and the LDP, which has held power for most of the past half century, is widely unpopular. While the new Fukuda cabinet received a brief boost in opinion polls last month, public support had fallen back to 29 percent by last weekend, according to the latest Nikkei newspaper poll.

Speaking before Fukuda's resignation, Robert Dujarric, director of the Institute of Contemporary Japanese Studies, told Bloomberg.com: “He's kind of a dead man walking. He's not

doing well and he's not popular, but there's no obvious alternative.”

The most likely replacement is former minister Taro Aso, who was defeated by Fukuda in the leadership ballot last September. Aso, who was appointed to the powerful post of LDP secretary general in last month's cabinet reshuffle, has strong connections to Japan's conservative political establishment. He is the grandson of a former prime minister and his wife is the daughter of another former prime minister.

The latest polls show that Aso is the most popular contender for prime minister. He is known, however, as an advocate of greater government spending and for his hard-line nationalist views, which may undo Fukuda's efforts to patch up relations with China. Just last month, China overtook the US as Japan's largest export market, even as Japan's trade surplus plunged by 86.6 percent in July—the fifth consecutive monthly fall. As a result, Japanese business can ill afford poor relations with China.

Other possible contenders include former Defence Minister Yuriko Koike and Kaoru Yosano, who was installed as economic and fiscal policy minister last month. Yosano and Finance Minister Bunmei Ibuki are known as economic hardliners who favour increasing the country's unpopular 5 percent consumption tax to help rein in the budget deficit and the country's huge public debt, which stands at 180 percent of GDP. By contrast, Aso last month called for greater efforts to stimulate the economy and the postponement of the LDP's pledge to end the budget deficit by the 2011-12 fiscal year.

Fukuda's resignation has provoked criticism in the financial press over his failure to press ahead with market restructuring.

The British-based *Times* also criticised Fukuda for failing “to stand up to conservative elements in his own party and to tackle, for example, Japan's wariness of foreign investment. Earlier this year Peter Mandelson [EU trade commissioner] called the country the ‘most closed investment market in the developed world’, remarking on how astonishing it was that the EU traded more with Switzerland than Japan. Vodafone pulled out of Japan two years ago, and other investors have followed suit, contributing to the relatively anaemic

performance of the Japanese stock market.”

The *Wall Street Journal* bluntly declared that Fukuda’s “real mistake... was to show no courage on economic reform... As Japan’s last economically reform-minded leader, Junichiro Koizumi, learned, it’s better to take decisive steps and sell them to a sceptical public than try to knit together consensus within the LDP. Japan’s next leader could start by slashing Japan’s corporate tax rates, which are among the highest in the world.”

Koizumi’s record

Many myths surround Koizumi’s time as prime minister. He was installed in 2001, amid a deep political crisis in the LDP following a long string of short-lived and ineffectual governments. Widely regarded as a political maverick, he won the LDP leadership not via traditional backroom factional deals but by openly opposing the party’s factional system. Koizumi cultivated a flamboyant, anti-establishment public image in a bid to establish a base among alienated voters for his right-wing policies of economic restructuring and the revival of Japanese militarism.

Koizumi backed the Bush administration’s “war on terrorism” and dispatched Japanese troops to Iraq as a means of securing Washington’s support for a more aggressive foreign policy, particularly in North East Asia. He publicly visited the Yasukuni Shrine, a potent symbol of Japan’s militarist past, and dismissed criticisms from China and South Korea, by declaring that it was a domestic matter.

The high points of Koizumi’s market reforms came in 2005 when his attempt to ram through a postal privatisation law was defeated in the upper house because some LDP members crossed the floor. Rather than accepting defeat, Koizumi expelled the “postal rebels” from the party and called a snap election. By limiting the election campaign to the single issue of postal “reform” and casting himself as an opponent of the LDP establishment, Koizumi was able to win the election and push through postal privatisation.

However, those who longingly look back to Koizumi fail to recall that his policies generated widespread unpopularity, not only among the LDP’s traditional base but more broadly. Economic restructuring, which intensified under Koizumi, generated a deepening social divide, particularly in the LDP’s rural heartland. Sections of the middle class and working class have been hard hit by the erosion of the “life-long employment” system and the growth of poorly paid, casual and temporary jobs. The widening social chasm between rich and poor generated an unprecedented public debate over the “winners” and “losers”.

The slide in popularity was compounded by widespread

opposition to the Iraq war, which finally compelled Koizumi to withdraw Japanese troops in July 2006. By the time Koizumi handed over to his carefully groomed heir apparent—Shinzo Abe—only 47 percent of respondents in an *Asahi Shimbun* poll supported his cabinet and just 17 percent wanted his “reforms” to continue unchanged.

As in countries around the world, governments in Japan continue to run up against the basic dilemma: how to implement the economic restructuring agenda demanded by the corporate elite that runs directly against the interests of the vast majority of the population. Neither of Koizumi’s successors—Abe and Fukuda—has been able to press ahead with market reforms. Their efforts to slash government spending by cutting back on pensions, health care and other basic services have evoked hostility and opposition.

Nor is it a matter of repeating Koizumi’s political tricks. Aso, for instance, has made an effort to present a “rebel” image by touting his enthusiasm for reading manga comics, which are widely popular in Japan. Such ploys cannot obscure the fact that the Japanese economy is slowing and that broad layers of the population have suffered from rising prices and stagnant wages. Japan’s core consumer price index rose by 2.4 percent from a year earlier in July—the largest rise in a decade. Young people in particular have borne the brunt of a lack of job opportunities, with many become part of the country’s growing army of “freeters”—part-time and temporary workers.

The opposition DPJ won the 2006 election for the upper house by promising better living standards but its economic policy is rather incoherent. Previously, the party had sought to outflank the LDP by demanding more radical market reforms. At the same time, it has continued with populist promises and ploys, including blocking the renewal of a petrol tax this year. On foreign policy, the DPJ has sought to capitalise on antiwar sentiment by opposing the government’s continued naval support for the US occupation of Afghanistan. However, DPJ leader Ichiro Ozawa, who split from the LDP in the 1990s, is a fervent advocate of Japanese remilitarisation and the party is fully committed to the US-Japan alliance.

Fukuda’s resignation not only points to a crisis inside the ruling LDP but to a deeper malaise within the political establishment as a whole, which confronts widening alienation and opposition from broad layers of working people to its policies.



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