

# Japanese government flounders amid worsening recession

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Less than three months after assuming office, the future of Japan's Prime Minister Taro Aso is in doubt because both the economy and his government's approval ratings have plunged sharply. Aso has shelved plans for an early lower house election, which has to be called before next September.

The ruling Liberal Democratic Party (LDP) is no doubt already considering dumping Aso. Acting LDP secretary general Nobuteru Ishihara commented on December 5: "Of LDP lawmakers, 70 to 80 percent have doubts if they can remain in power after the party enters an election under Aso."

The *Mainichi Daily* recorded Aso's approval rating at 18 percent—down by 21 percentage points since he took office. The newspaper's editorial on December 8 called on him to resign, declaring: "Amid the worsening economic situation such as employment insecurity, we express concern that the prime minister who cannot win public support is remaining in office with no clear prospects of achieving his policy goals."

It is not, however, just Aso, but the LDP as a whole that is facing political defeat. His predecessors—Shinzo Abe and Yasuo Fukuda—held office for just a year each. Abe resigned as the sub-prime crisis emerged in the US in 2007, while Fukuda stepped down as the current financial meltdown fully took hold last September. As Japan has sunk into recession, both Aso and the LDP have rapidly lost support.

A recent survey by the *Yomiuri Shimbun* showed that 65 percent of voters were ready to see the opposition Democratic Party of Japan (DPJ) assume the government—up by 7 percent from October. Even among the LDP voters, 45 percent said that they were prepared to see the DPJ take office. For the first time, DPJ leader Ichiro Ozawa outpolled Aso as preferred prime minister.

The LDP has held power in Japan for more than half a century, except for a relatively brief period in the early 1990s. The DPJ is largely formed from LDP factions and politicians that broke from the party in 1993 to pursue more aggressive

economic restructuring and a refashioning of the country's political superstructure. While the DPJ is exploiting widespread concern over the impact of the current economic crisis, its policies would only deepen the divide between rich and poor.

Within the LDP, divisions have also emerged over the speeding up of pro-market restructuring. Supporters of former Prime Minister Junichiro Koizumi have been critical of Aso's stimulus packages and have pressed for savage spending cutbacks and further structural reforms.

A prominent LDP leader Yoshimi Watanabe called a meeting on December 8 to discuss forming a new party with members of the DPJ. Former defence minister Yuriko Koike, who was backed by Koizumi for prime minister against Aso, declared: "Both we and Minshuto [the DPJ] face a common challenge: whether to fundamentally change the structure of our country."

The next day, more than 60 LDP lawmakers met to push for the resumption of the stalled privatisation of postal services, the country's largest public financial institution. Koizumi told the meeting: "I want you to remember once again what the election three years ago was about. I can't understand why some people are doing what they are now doing."

In 2005, Koizumi won a landslide victory on the issue of postal privatisation, after a group of upper house LDP lawmakers initially blocked the legislation. He expelled the LDP rebels, called a snap election and focussed the campaign exclusively on postal "reform". By posturing as a fighter against the LDP hierarchy, Koizumi was able to make an appeal to broad layers of alienated voters, particularly among young people.

Koizumi's electoral confidence trick did not last for long. As the impact of his pro-market policies began to be felt, a public debate opened up over the widening gulf between rich and poor. Koizumi's successors—Abe, Fukuda and Aso—have returned to the LDP's traditional policies of pump-priming to secure support, particularly in rural constituencies. Increasingly, however, these measures are coming into conflict

with powerful sections of business who want Japan opened up to global capital and the country's huge public debt slashed.

Japan's stimulus packages during a protracted slump of the 1990s resulted in public debt skyrocketing to 180 percent of GDP. During the LDP leadership contest in September, the emerging global financial turmoil appeared to support Aso's argument for increased government spending to stimulate the economy. Now, however, his credibility is in tatters because his new stimulus measures failed to prevent the economy sliding into recession.

On Monday, Bank of Japan (BOJ) chief Masaaki Shirakawa told the *Financial Times* that the economy would contract in the year ending March 2010—down from the previous estimate of 0.6 percent growth. The only hope he offered was that Japan had expanded for a decade from 1997 to 2007, albeit slowly, despite chronic deflation, which is re-appearing.

The reality is that the limited recovery of the past decade was due largely to growing exports to booming China and an expanded market in the US, based on credit. Now the US is in recession and China's economy is slowing dramatically. Japan never fully recovered from the collapse of share and property prices in the early 1990s and is headed for another protracted slump.

Official data released on December 9 showed that in the third quarter GDP fell by 0.5 percent from the previous quarter—much worse than the previous estimate of 0.1 percent. The annualised contraction of 1.8 percent in the July-September quarter is worse than the 0.5 percent decline in the US economy during the same period.

Aso unveiled his second stimulus package of 23 trillion yen (\$US255 billion) last Friday. He told a nationally televised conference: "The economy has worsened far beyond our expectation. This is a once-in-a century global slump. Japan isn't going to escape from this big tsunami, but we can respond to it in a way that minimises the damage."

The latest package provides funds to help large and medium firms obtain loans from the state-backed Development Bank of Japan. The announcement came a day after the yen reached 88.1 to the US dollar—the first time since 1995 that the currency has been below 90 to the dollar. Japanese export industries have been hit by the high value of the yen.

The Bank of Japan's Tankan index of business confidence released this week showed that the diffusion index among large manufacturers dropped to minus 24 for the December quarter, down by 21 points from the previous survey taken in September. This was the largest decline in 34 years.

One of the clearest indicators of recession is the 62.2 percent fall in sales in the machine tool industry in November from a year earlier—the largest decline since the data began to be collected in 1988. As Japan is a major international manufacturer of capital goods, the decline indicates falling capital spending in Japan and globally.

According to the *Kyodo News*, 12 major Japanese automobile manufacturers plan to slash global production by more than 2 million units in the fiscal year 2008 through to next March. Electronics giant, Sony, announced last week that it would cut 16,000 jobs and shut six factories worldwide.

Aso stressed that the aim of the new stimulus package was to protect jobs. He warned cabinet ministers on December 9 that rising unemployment would become a "major social problem". The package contains subsidies to encourage companies to keep workers in company housing even after they have been fired and give permanent positions to casual workers. However, these limited measures are unlikely to hold back a flood of job losses.

An editorial in the *Yomiuri Shimbun* warned on December 6: "Imagine that one day you are told out of the blue that you have been fired and you are asked to vacate your room in the company dorm. You have lost your job and home at a stroke. If this happens to more and more people, and a sense of desperation spreads in society, social unrest will grow further."

This fear of rising disaffection undoubtedly explains why sections of the ruling elite are swinging behind the DPJ as a better political vehicle for dissipating opposition—for a time at least—to harsh economic measures and deteriorating living standards.



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