Japanese government in crisis as recession deepens

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As Japan confronts its worst recession since World War II, the government is in disarray, with the ruling Liberal Democratic Party (LDP) heading toward defeat in general elections due by September. Official statistics released this month revealed that the economy shrank by 12.7 percent on an annualised basis in the last quarter of 2008—the sharpest contraction since 1974 and steeper than any other major industrialised economy. Most analysts expect worse to come.

Prime Minister Taro Aso's political decline has paralleled the collapsing economy. When he came to office last September, Aso's rating in the opinion polls was hovering around 50 percent. A recent poll by NTV showed that his popularity had slumped from about 20 percent in January to just 9.7 percent. Some LDP lawmakers have defected from the party; others are demanding that Aso resign.

Aso's administration is increasingly shaky. Last month, Vice Minister for Internal Affairs Tetsushi Sakamoto had to publicly apologise after sparking anger over comments that homeless workers were unwilling to work. Last Tuesday, Finance Minister Shoichi Nakagawa was forced to resign after he appeared drunk at a G7 press conference in Rome.

A senior LDP figure told the *Financial Times* on February 16: "Being in the LDP is like being on the deck of the Titanic but with one important difference. We know that the ship is going to sink. Now all we can do is to wait for it to happen and then see who can swim."

Aso has responded to the economic crisis with a series of huge stimulus packages. However, far from lifting his popularity, the measures have drawn criticism both from the opposition Democratic Party of Japan (DPJ) and from within the LDP itself. Concerns have been raised that the packages will dangerously increase public debt, which already stands at 173 percent of GDP. Last month, former Financial Services Minister Yoshimi Watanabe, who opposed increased government spending, quit the LDP.

Aso faces gridlock in the parliament, with the DPJ, which holds the majority in the upper house, blocking key legislation and demanding early elections. The government has used its two-thirds majority in the lower house to override the opposition, but internal divisions make that increasingly difficult. Of the proposed 12.6 trillion yen ($US135 billion) in stimulus packages, only a quarter has been implemented, due to obstructions in the parliament and the LDP.

Former Prime Minister Junichiro Koizumi publicly criticised Aso this month, demanding a return to the program of free-market restructuring and austerity. In particular, Koizumi opposed the planned handout of $22 billion to individuals to boost consumer spending. Koizumi, who held power from 2001 to 2006, built a significant base within the LDP for dismantling the economic regulation and pork barrel politics that had sustained the party throughout the post-war period.

In what for Japanese politics was a particularly blunt attack, Koizumi branded Aso as dishonest for opposing the privisatisation of postal services while serving as a minister. "Without confidence in the prime minister's words, we can hardly contest an election," Koizumi said. Significantly, Koizumi's remarks had the backing of the Machimura faction—the LDP's largest.

Postal privatisation in 2005 was a watershed in LDP politics. Japan Post, the country's largest public financial institution, had been central to the party's funding of construction projects and other measures designed to maintain political support in its rural base. The privatisation was blocked in the Upper House with the support of LDP legislators. Rather than accepting defeat, Koizumi expelled the LDP rebels and called a snap election. By limiting the poll to the sole issue of postal privatisation and posturing as a reformer against the LDP establishment, he won a substantial majority.

Koizumi's "popularity" was illusory, however. His economic policies not only produced growing dissatisfaction in the LDP's rural base, but broader public hostility over the country's deepening social divide. The undermining of the life-long employment system has led to a swelling army of casual workers, and rising poverty and unemployment. Koizumi's support for the US wars in Iraq and Afghanistan, as well as his right-wing nationalism, also led to growing opposition.

Aso is the latest of three prime ministers who followed in quick succession after Koizumi stepped aside in 2006. Shinzo Abe and Yasuo Fukuda, who both lasted about a year, attempted to patch up divisions inside the LDP. Abe brought the "postal rebels" back into the party. Fukuda stepped in after Abe lost control of the upper house to the DPJ and faced parliamentary obstruction over Japan's naval support for the US-led occupation of Afghanistan. Both steadily lost popularity and their administrations were plagued by scandals and resignations.

The present political impasse is not simply one of the Aso government, but of the LDP and the Japanese political establishment as a whole. While Aso may be replaced and the LDP could lose this year's election, the dilemmas facing any new government will remain. Any return to far-reaching economic restructuring measures will deepen the social crisis facing working people and provoke opposition. Any attempt to boost spending will compound the country's financial crisis.

The protracted turmoil within the conservative LDP reflects the fact that it was the party of the post-war boom, ruling for virtually all the past half century. Its economic program was one of national regulation, assisted by access to US markets. Its foreign policy during the Cold War was based squarely on the US-Japan Security Treaty—Japan was Washington's junior partner in North East Asia and in return was taken under the US defence umbrella.

The LDP's current crisis can be traced to the late 1980s. The growing globalisation of production undermined its policies of national economic regulation, and the declining position of Japanese capitalism found its reflection in the collapse of share and property values. The 1990s, commonly described as the "lost decade," was a period of stagnation and slump. Growth since 2000 has been primarily the result of exports to the booming Chinese economy.

The collapse of the Soviet Union in 1991 and the end of the Cold War faced the Japanese ruling elites with strategic dilemmas. The 1990-91 Gulf War exposed Japan's weaknesses. Barred from sending troops to this imperialist enterprise by the pacifist clause of its constitution, Tokyo was nevertheless pressured by Washington to pay for much of its costs. Since then, Japanese governments have been seeking to free the military from the constitutional restraints and debating the means to assert Japan's interests in the world.

Politically, the past two decades could be considered lost decades for the Japanese establishment. Differences over economic and political reform in 1993 resulted in a break-up of the LDP, which briefly fell from power. Amid deepening public alienation, the party lurched from one crisis to another, with a succession of short-lived prime ministers and governments. Koizumi's five years in power was only the exception that proved the rule. Rather than reflecting revived support for the LDP, his popularity rested on his carefully cultivated image as a rebel against the party hierarchy.

The opposition parties have fared no better. The factions that split from the LDP in 1993 formed a series of fragile parties. The main opposition party—the Japanese Socialist Party (JSP)—collapsed into oblivion after entering a coalition government with its long running rival, the LDP, in 1994. The DPJ, which is an amalgamation of fragments of the LDP and the JSP, is currently enjoying a significant rise in its popularity, but is fraught with divisions.

These were graphically exposed during the visit by US Secretary of State Hillary Clinton to Japan last week. DPJ leader Ichiro Ozawa initially turned down Clinton's offer of talks on the grounds that the DPJ had not worked out a foreign policy. When he finally met Clinton, Ozawa stated the party's opposition to Japan's involvement in the US occupation of Afghanistan—a DPJ policy that has wide public support. At the same time, he reaffirmed his support for the US alliance, adding the qualification that it had to be more equal.

Ozawa's precarious balancing act reflects rifts in the DPJ. Fragments of the former JSP continue that party's longstanding opposition to the alliance with the US and support for a more independent Japanese foreign policy. Ozawa, however, a former LDP powerbroker who is known for his right-wing nationalist views, is clearly not ready to abandon Japan's strategic ties with the US.

The DPJ's populist rhetoric on social inequality has also raised concerns in business circles about the orientation of an Ozawa government. The big business lobby Nippon Keidanren has bluntly demanded that the DPJ drop its proposal to keep the corporate tax rate at around 40 percent—one of the highest in the world—and is insisting the party raise the consumption tax rate. At the same time, Nippon Keidanren spokesman Mitsuo Ohashi clearly had the measure of the DJP, saying its "proposed steps are rather temporary to attract voters as the election nears".

The DPJ has a record of criticising LDP governments for failing to go far enough in implementing market reform. If an Ozawa government does take office later this year, it will be faced with the same profound economic problems as the LDP. Any honeymoon period will quickly evaporate as the party, under pressure from big business, imposes the brunt of the slump onto working people.

The present turmoil signals a profound break-up of political relations in Japan, which as the economic crisis deepens, will find its reflection in renewed interest in a genuine socialist alternative.