

Japan's fragile economy overshadows general election

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The Japanese cabinet office announced last week that the economy grew by 0.9 percent in the second quarter compared to the previous quarter, or at an annualised rate of 3.7 percent. Along with recent data from Germany and France, economic commentators cautiously hailed the Japanese result as another sign that the global economic recession was coming to an end.

The news is unlikely to affect the outcome of the general elections on Sunday. Barring an upset, the embattled Liberal Democratic Party (LDP) is set to lose power after ruling Japan virtually without break for more than 50 years. The opposition Democratic Party of Japan (DPJ) continues to lead by a wide margin, capitalising on widespread popular hostility to the LDP and Prime Minister Taro Aso amid rising unemployment and falling living standards.

Few voters are likely to be swayed by the second quarter figure, which followed huge contractions of 4.0 percent and 3.8 percent in the first quarter of 2009 and the last quarter of 2008 respectively. The so-called recovery was largely dependent on exports to China and other Asian countries, which recorded modest improvements in industrial output. The government's \$US21 billion in handouts to consumers boosted private spending by a mere 0.8 percent—after a fall of 1.2 percent in the previous quarter. The high level of stimulus spending is unsustainable, with the government's fiscal deficit heading to 8 percent of GDP this year and total public debt at 170 percent of GDP.

Despite the second quarter growth, the Bank of Japan is still predicting a contraction of 3.4 percent for the financial year ending in March 2010. The *Wall Street*

Journal noted that private capital spending fell by 4.3 percent—the fifth monthly decline—raising questions about medium-term and long-term prospects for recovery.

A *Financial Times* editorial on August 17, entitled “Japan's recovery: not all it seems,” noted that Japan's nominal GDP had contracted to the level of 1993. “For a start, unemployment is creeping up. Last month, it nudged back to 5.4 percent, close to the 2003 peak that followed a decade of stagnation. Much of the growth, too, is indebted to a huge stimulus package, as well as to a bounce in net exports, the latter partly due to a fall in imports. Taken together, that is hardly an unequivocal sign of economic vigour.”

The latest polls show the DPJ outpolling the LDP by nearly two to one. An *Asahi Shimbun* survey last week found that 40 percent of respondents would vote for the DPJ, compared to just 21 percent for the LDP. At the same time, however, there is considerable scepticism about both parties. The newspaper noted that 83 percent expressed doubts “that the LDP or the DPJ would be able to finance the various programs pledged in their manifestos”.

The poll found that 66 percent of those surveyed did not take seriously the LDP's promise to increase each household's take-home income by one million yen in 10 years. It also found that 52 percent opposed the LDP's plans to increase the 5 percent consumption tax when the economy recovered. At the same time, 55 percent did not think highly of the DPJ's pledge to provide a family allowance in exchange for abolishing spousal deductions for income tax. Only 27 percent said they would seriously consider the election manifestos of various parties.

The poll indicates that much of the support for the DPJ is based on hostility to the LDP, rather than

positive backing for the opposition party and its program. The DPJ has sought to appeal to this sentiment with its vague slogan of “change,” combined with a series of limited election pledges designed to undermine the LDP’s traditional support base.

The LDP has held power since it was formed in 1955 except for a brief period in 1993 when the party was wracked by a series of splits. Its foreign policy was based on its Cold War military alliance with the US, while its domestic policy rested on a highly regulated national economy underwritten by steady economic expansion. The end of the Cold War coincided with the collapse of Japan’s speculative property and share market bubbles, followed by a decade of economic stagnation and demands from business for an aggressive pro-market agenda to make Japan more internationally competitive.

The protracted political decline of the LDP has been associated with growing popular concern over the social impact of the government’s restructuring and rising social inequality. The fact that the LDP currently holds a large majority in the lower house—more than 300 seats of the total 480—is highly contradictory. It is the legacy of former Prime Minister Junichiro Koizumi, who won the 2005 election in what, for Japan, was an unorthodox manner. He called a snap election on the issue of postal privatisation after LDP rebels in the upper house blocked his bill. He was able to garner significant support by confining the election to the single issue and posturing as an opponent of the LDP old guard.

After the election, however, Koizumi’s support began to slide as his pro-market measures impacted on living standards and led to a public debate over “winners and losers” in society. Koizumi’s support for the Bush administration’s wars in Iraq and Afghanistan, which had been sidelined in the course of the election, also produced growing opposition. Since Koizumi stood down in 2006, the LDP has been headed by three leaders, all of whom have been plagued by falling popularity and public scandals.

As a result, the LDP appears to be headed for a devastating defeat. Even the conservative *Yomiuri Shimbun* concluded from its nationwide survey of nearly 110,000 voters that the DPJ was likely to win over 300 seats in the lower house. It already controls the upper house. The LDP was likely to suffer a

“humiliating setback” not only in the big cities but in its traditional strongholds in the regional areas.

According to the *Yomiuri Shimbun*, most of the minor parties—the LDP’s coalition partner New Komeito and the opposition Social Democratic Party and Peoples New Party—face uphill battles to retain their seats. Only the Japanese Communist Party (JCP) is likely to make any gains, capitalising on the distrust felt toward the two major parties and growing anti-capitalist sentiment particularly among layers of youth. However, the Stalinist JCP has functioned as part of the Japanese political establishment for decades on the basis of a program of mild social reforms within the framework of capitalism and a foreign policy more independent of the US. JCP leader Kazuo Shii has pledged to function as a “constructive opposition” to a DPJ government.

The DPJ was formed in 1998 as an alliance of former LDP breakaway factions and ex-members of the Social Democratic Party (SDP). While promising a series of handouts in the course of the election campaign, the party is committed to a pro-market agenda of slashing public spending and further deregulating the economy. It has sought to capitalise on popular hostility to the US wars in Afghanistan and Iraq, promising to end Japanese naval support and refuelling for US ships operating in the Arabian Sea.

If the DPJ wins on Sunday, all of its internal contradictions will rapidly come to the surface. Senior leaders—most of whom are former LDP members—have already hinted that the party will take no drastic steps to change the US-Japan Security Treaty or the presence of US military bases in Japan. In the economic sphere, the next government will immediately come under pressure from big business to slash spending and impose austerity measures that will inevitably generate popular opposition and undermine its support.



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