

Japan: Democrats prepare to slash public spending

Peter Symonds
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After winning a landslide election victory, the Democratic Party of Japan (DPJ) is due to take office next week, ending more than half of a century of virtually unbroken Liberal Democratic Party (LDP) rule.

The new government's economic direction was indicated this week by Hirohisa Fujii, who is tipped to become the country's next finance minister. In an interview on Wednesday, Fujii said the next administration had to quickly demonstrate fiscal responsibility and prepare to make deep cuts to the previous government's stimulus spending.

"The first thing to do will be to revise the supplementary budget—that's absolutely essential," Fujii told the *Financial Times*, pointing in particular to 2.9 trillion yen (\$US31 billion) earmarked for government facilities and 4.3 trillion yen being channelled into government discretionary funds.

"I'm not saying all of this is bad, but there's a question as to whether much of it is worthy of the name of emergency economic stimulus. I think there's a need to make substantial cuts," Fujii said. Asked about the potential for such measures to undermine growth, he acknowledged that the economic situation was "extremely delicate".

Fujii, 77, is currently the party's "supreme adviser" and one of the few Democrats to have served in office. He became an LDP parliamentarian in 1977, after serving as a finance ministry bureaucrat for two decades. He quit the Liberal Democrats in 1993, then became the finance minister in two short-lived, non-LDP coalition governments between August 1993 and June 1994. The first coalition collapsed largely as a result of its attempt to raise the country's unpopular consumption tax.

The Democrats are under pressure from business circles in Japan and internationally to rein in the country's huge public debt, currently at around 170 percent of GDP—the highest of any major industrialised country. The powerful

business group Keidanren advocates doubling the consumption tax from 5 to 10 percent as a means of boosting government income.

Economist Carl Weinberg from US-based High Frequency Economics told *Bloomberg.com*: "We have a government coming in that's committed to spend even more than the previous government at a time when increased borrowing to spend is just not a plausible option." He warned: "A catastrophic breakdown of Japan's public sector finances will be the biggest story ever to hit the world economy in our times, eclipsing the current financial crisis."

In the course of the election campaign, the DPJ made a series of promises—including to provide a child allowance, cut road taxes, assist farmers and provide free education—that will cost an estimated 16.8 trillion yen annually by 2013. At the same time, the Democrats pledged not to raise public debt or the consumption tax, but to pay for their measures by slashing "waste" and the LDP's pork barrel projects.

In comments to the London-based *Times*, Takehide Kiuchi, Nomura's chief economist, said that the DPJ would not be able to find the money needed to finance its policies simply by cutting spending. He also warned of higher unemployment if the next government proceeded with plans to increase minimum wages and change labour laws that have led to the widespread use of low-paid, casual labour.

The touting of Fujii as finance minister is clearly aimed at reassuring big business that the new government will protect their interests. Hirotaka Kusaba, senior economist at Mizuho Research Institute, told the *Wall Street Journal*: "Fujii is the best card that the DPJ has as a finance minister, so markets, including stocks, would react positively to his appointment." He added that Fujii's experience in the finance ministry could help smooth cost-cutting.

Former Democrat leader Naota Kan has already been

chosen as minister in charge of the new National Strategy Bureau that aims to ensure that the government, rather than Japan's powerful state bureaucracy, sets domestic and foreign policy directions. Kan is known as a proponent of pro-market restructuring. During the election campaign, he attacked alleged waste by ministries, saying: "This kind of irrational thing is not done in the private sector."

The appointment of Kan and probably Fujii to key posts underscores the DPJ's conservative, pro-business character. The party, formed in 1998, is an unstable amalgam of ex-Liberal Democrats and former Socialist Party factions, but the leading positions are firmly in the hands of ex-LDP figures, including party leader Yukio Hatoyama and former leader Ichiro Ozawa, who has been appointed as DPJ secretary general.

Despite a huge lower house majority, the Democrats are not in a strong position. The latest polls have underscored the fact that many voters cast their ballots against the Liberal Democrats, rather than positively for the DPJ. A survey by NHK public television found that around 63 percent of respondents were happy with the election outcome, but more than half said that the result was due to dissatisfaction with the LDP.

Popular suspicion and hostility will only grow as the Hatoyama government starts to break its election promises and make deep cuts to public spending. While the Japanese economy grew by 0.9 percent in the second quarter, this fragile growth followed huge contractions of 4.0 percent and 3.8 percent in the first quarter of 2009 and last quarter of 2008 respectively. The country's major export industries have been hit hard by the global recession. The latest economic statistics released this week included a record fall of 9.3 percent in machinery orders, a strong indicator of declining overall capital spending as businesses prepare for a bleak future.

For all its election rhetoric about helping ordinary voters, the next government's chief task is to impose the brunt of the economic crisis onto the working class. The only way to make any significant inroads into public debt is through the slashing of government jobs and services and increased taxes. Significantly, Fujii, who heads the DPJ's tax panel, has already called for a discussion on funding social spending by raising the consumption tax.

The unemployment rate in Japan reached a record high of 5.7 percent in July, reflecting widespread layoffs over the past year, particularly of low-paid, temporary employees.

The official figures grossly underestimate the actual jobless levels. Poverty and homelessness are on the rise, as the unemployed are only eligible for limited, short-term benefits. Some people have starved to death after being refused welfare. Last month, Agence France Presse reported the case of a 39-year-old man found dead with nine yen, or less than 10 US cents, in his wallet and an unposted note reading "help".

The Hatoyama government will be heavily dependent on former Socialist Party figures and their associated trade unions to suppress resistance in the working class to its policies. Moreover, after several days of haggling, the DPJ has concluded a coalition agreement with two small allies—the Social Democratic Party (SDP) and the Peoples New Party (PNP). The SDP was formed in 1996 from the remains of the former Socialist Party after it entered a grand coalition with the LDP in 1994 and its support collapsed.

The Democrats need the support of the SDP and PNP to maintain control of the parliamentary upper house. More importantly, however, the Social Democrats in particular will be called upon to contain and quell any anti-government opposition among workers. The same role will be played by the Japanese Communist Party. While it is not part of the ruling coalition, the JCP's leader, Kazuo Shii, has already promised to act as a "constructive opposition".

The end of 55 years of LDP rule does mark a political watershed, but the new Hatoyama government represents no fundamental shift in direction by the country's ruling elites. As Fujii emphasised in his interview with the *Financial Times*: "A change of government is not a revolution." The real political upheavals will take place as the new administration comes into collision with the needs and expectations of working people.



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