Japanese government announces pro-business agenda

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Just two weeks after being installed as Japan's prime minister, Naoto Kan has outlined an economic agenda that will deepen the divide between rich and poor. His government last week signalled a huge cut in corporate tax rates from 40 to 25 percent, while indicating that the country's highly unpopular sales tax could be doubled from 5 to 10 percent. The announcements follow a G-20 meeting of finance ministers two weeks ago that called for a U-turn in fiscal policy internationally —away from the stimulus packages advocated during the 2008-09 global financial turmoil and towards drastic austerity measures.

Kan was finance minister in the Democratic Party of Japan (DPJ)-led government of former Prime Minister Yukio Hatoyama. The DPJ ousted the conservative Liberal Democratic Party (LDP), which had held office virtually unbroken for more than half a century, in national lower house elections last August. Over the subsequent nine months, support for the Hatoyama government plunged from a high of around 70 percent amid continuing economic uncertainty. Hatoyama resigned on June 2 after his back down on an election promise to shift a US military base out of Okinawa triggered large local protests and a further collapse in support to less than 20 percent.

Kan, who has already declared that he will abide by Hatoyama's deal to move the US base within Okinawa, has shifted the focus to the economy. He has used the sovereign debt crisis that has erupted in Europe to call for tough measures to slash public debt. In his first speech to parliament as prime minister on June 11, he declared: "As we have seen with the financial confusion in the European Community stemming from Greece, our finances could collapse if trust in national bonds is lost and growing national debt is left alone."

Kan reiterated the message last Thursday. Again pointing to the European economic turmoil, he warned: "Unless Japan addresses this issue, institutions like the International Monetary Fund may take control of the country's fiscal policy." Currently Japan's public debt stands at around 950 trillion yen (over $US10 trillion), which is approaching 200 percent of gross domestic product. Kan announced plans to overhaul the tax system and suggested that the sales tax could be doubled—in line with a similar LDP policy. During last year's election, the DPJ pledged not to raise the sales tax for at least three years.

Kan's tax announcement will only alienate voters in the lead up to upper house elections scheduled for July 11. The DPJ together with its coalition partner, the People's New Party (PNP), currently holds a narrow majority in the upper house which has the power to block legislation and the budget. By hinting at a sales tax rise, Kan is demonstrating to big business that his government will impose unpopular economic measures, regardless of the political cost.

Relations with the PNP are already uneasy. Party leader Shizuka Kamei resigned as financial services minister on June 11 after the DPJ refused to extend the current upper house session to pass legislation reversing steps towards postal privatisation carried out by former LDP Prime Minister Junichiro Koizumi. Kamei bitterly opposed the sell-off of the postal service—the country's largest savings bank—and broke with the LDP. At this stage, Kan has only delayed passage of the postal bill and the PNP remains in the coalition.

Last Friday, the DPJ unveiled its long-term economic strategy as the basis for next month's election campaign. The government outlined a series of measures on the environment, health care, the Asian economy and tourism, aimed at boosting average real annual economic growth to 2 percent by 2010, to end persistent deflation and to reduce unemployment to less than 4 percent. The Japanese economy stagnated for most of the past two decades after the collapse of speculative share and property bubbles in the early 1990s. Over the past decade, the growth rate has averaged around 1 percent.

In the context of the worsening global economic crisis, a 10-year plan to double economic growth appears to be wishful thinking. Japan's exports were hard hit by the global downturn in 2008-09 and only recovered towards the end of last year. In the first quarter of 2010, growth hit an annualised rate of 5 percent but was dependent on exports, particularly to China and Asia generally. Any downturn in China's feverish growth rates would impact heavily on the Japanese economy and Kan's plan, which includes plans to export hi-tech items such as nuclear power plants and Shinkansen bullet trains to Asian countries.

While insisting that debt had to be reined in, the government has made very clear that it will be working people, not the corporate elite that will be forced to bear the burdens. Its proposal to cut the corporate tax rate from 40 percent to 25 percent is in line with longstanding demands by the country's main business lobby Keidanren. Speaking to the *Financial Times* last week, Keidanren chairman Hiromasa Yonekura praised Kan as "a very realistic and practical man", in contrast to Hatoyama who struggled to make timely decisions.

Economic commentators gave guarded support to the DPJ's overall economic plans. Masaaki Kanno, economic research director with J.P. Morgan Japan, told the *Wall Street Journal*: "This is much better than I expected, but there are some problems left. One of the issues is the fiscal consistency between revenue and spending. While [a] corporate tax rate cut is proposed, it remains unclear whether it is offset by an increase in other revenue." In other words, new burdens have to be placed on the working class—either in the form of new taxes or cutbacks to essential services. Kan has already announced that another election promise—to double child-care allowances—has been scrapped.

Despite a return to positive economic growth in the first quarter, the official unemployment rate continued to rise to a near record 5.1 percent in April. The economy lost a net 280,000 jobs, making the third straight monthly decline, with payrolls in agriculture, manufacturing, real estate and education all falling.

The job losses compound the deepening social crisis in Japan produced by two decades of economic stagnation. Last year the government released poverty figures, which had been kept secret since 1998. A welfare ministry survey found that the number of people in 2007 living in relative poverty—that is, below half the median national disposable income—was more than one in seven, or 20 million people. For single-parent families, the figure was 54.3 percent.

The *New York Times* reported in April: "[Poverty experts] say more than 80 percent of those living in poverty in Japan are part of the so-called working poor, holding low-wage, temporary jobs with no security and few benefits. They usually have enough money to eat, but not to take part in normal activities, like eating out with friends or seeing a movie."

The situation has certainly worsened since the eruption of the global financial turmoil in 2008. Many of the hardest hit are young people known as "freeters" who are dependent on part-time or temporary low-paid jobs. During what was known as the hiring "Ice Age" between 1994 and 2004, many young people missed out on securing full-time positions in the annual mass hiring of graduates each April and were condemned to an uncertain future. Non-regular workers now make up about one-third of the work force and were the first to lose their jobs when exports and the economy turned sharply down in 2008-09.

Following the replacement of Hatoyama by Kan, the government's approval rating has bounced back from 17 percent to 60 percent, according to the *Asahi Shimbun*. While that might be enough to give the DPJ an edge in next month's upper house election, the longer term impact of pro-market economic policies, which are backed by both major parties, will be to compound already widespread alienation from the whole political establishment in Japan.