

# New Japanese PM pledges austerity measures

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Japan's finance minister, Yoshihiko Noda, yesterday won the leadership of the ruling Democratic Party of Japan (DPJ) and will be formally installed by parliament today as the next prime minister—the third since the DPJ won office in September 2009.

Noda takes over from Naoto Kan, who resigned on Friday amid widespread public hostility to his government's mishandling of the nuclear disaster and recovery effort that followed the March 11 earthquake and tsunami. In early June, he had pledged to step down to avert a revolt in the DPJ ranks when key factions threatened to support an opposition-sponsored no-confidence motion.

Noda, who is known as an advocate of austerity measures, immediately called for party unity to deal with a “veritable national crisis of a strong yen and deflation, disaster recovery and reconstruction, [and] a nuclear disaster.” However, he takes over a party deeply divided on fundamental economic and foreign policy issues.

Noda defeated trade minister Banri Kaieda, the favoured candidate of party strongman Ichiro Ozawa, by 215 to 177 in a second round vote. The first round failed to produce a majority of legislators for any of the five candidates—Kaieda had led Noda by 143 to 102 with former foreign minister Seiji Maehara running third at 74 votes.

While media pundits billed the second round as a showdown between pro- and anti-Ozawa factions, the sharp differences reflect broader dilemmas facing the Japanese ruling class: how to stem the country's economic decline in the deepening global financial crisis, and how to balance between China, Japan's largest economic partner, and the US, its longstanding strategic ally, amid sharpening rivalry between these powers.

Ozawa is known for supporting closer relations between Japan and China, and for his advocacy of stimulus measures, including the implementation of the party's 2009 election promises, to lift the economy out of recession. He has some

support from Yukio Hatoyama, who led the DPJ to office in 2009 in a landslide victory, ending a half century of virtually unbroken rule by the Liberal Democratic Party (LDP).

Hatoyama's prime ministership lasted less than a year, however. The DPJ's pledges to expand social spending came into conflict with growing global demands for austerity to deal with the worsening sovereign debt crisis. Japan is the world's most indebted industrial country, with a public debt of around 210 percent of gross domestic product.

On foreign policy, Hatoyama's call for closer relations with China provoked opposition in Washington. The Obama administration effectively scuttled Hatoyama by refusing to renegotiate a deal reached with the LDP government on retaining a US marine airbase on the island of Okinawa. Hatoyama resigned amid mass protests on Okinawa after he agreed to keep the base on the island, breaching a key DPJ election promise.

Kan came to office in June 2010, calling for economic austerity and a debate over increasing the country's unpopular consumption tax. Opposition to the tax became a significant factor in the DPJ's loss of control of the parliamentary upper house in elections last year. Kan also placed renewed emphasis on the US strategic alliance, provoking a diplomatic confrontation with China last September over the arrest of a Chinese fishing trawler captain in disputed waters in the East China Sea.

Noda, 54, became senior vice finance minister when the DPJ took office in 2009 and was appointed finance minister by Kan last year. He is best known for his open support for austerity measures. According to the *Japan Times*, he was dubbed in the local press as “the official candidate from the Finance Ministry.” He told the media last week: “I want to send Japan's message both within the country and abroad that our fiscal discipline has not been eroded.”

During a candidates' debate on Sunday, Noda was the only one to publicly call for temporary tax increases, as well

as spending cuts and asset sales, to cover the huge bill for reconstruction following the devastating earthquake and tsunami. “If fiscal resources still run short it may be necessary to ask the public to shoulder the burden,” he said. Ozawa’s candidate, Kaieda, strenuously opposed increased taxes.

Japanese business leaders have been quick to welcome Noda’s win. Hiromasa Yonekura, chairman of the Japan Business Federation, known as Keidanren, praised him as “a stable leader, well versed in taxation, finance and social security policies, and with Japanese politics facing difficult times, [his election] is heartening.” The bond market responded positively, with the benchmark 10-year yield falling by 0.025 percentage points.

A *Wall Street Journal* comment was more critical of Noda’s pro-market credentials. “His ‘hawkishness’ did not, however, extend to questioning whether another Keynesian spending spree is the best way to rebuild quake-ravaged areas. As for any other pro-growth reforms—such as putting postal privatisation back on track, deregulating large swathes of the economy, immigration reform or the like—what is Japanese for ‘fugheddaboutit’?”

Last week, the international credit rating agency, Moody’s, sent a sharp warning to the next government by downgrading the country’s rating from Aa2 to Aa3.

The only candidate in yesterday’s poll to have any popular standing—former foreign minister Maehara—was knocked out in the first round. In a *Yomiuri Shimbun* poll last weekend, Maehara garnered an approval rating of 48 percent, with Kaieda on 12 percent and Noda trailing behind on 9 percent. Within the DPJ, however, Ozawa, who controls the largest bloc of votes, opposed Maehara because of the latter’s hawkishness toward China. As foreign minister last year, Maehara played an assertive role in the confrontation with China over the arrested fishing boat captain.

Although not as well known on foreign policy as Maehara, Noda is likely to be supportive of US President Barack Obama’s aggressive stance toward China. In an essay recently published in the magazine *Bungei Shunju*, he echoed Washington’s criticisms of Beijing, writing: “China’s high-handed foreign posture, backed by its military capabilities and recently put on display in the South China Sea and elsewhere, is stoking fears that China will disrupt the order within the region.” In fact, the US has stoked tensions in the South China Sea by backing countries like the Philippines and Vietnam that have rival maritime

claims.

Noda, the son of a career soldier in Japan’s self defence forces, supports changes to the country’s constitution to remove the so-called pacifist clause that renounces the right to use military force in the settlement of international disputes. Increasingly, the clause has been reduced to a dead letter over the past decade as Japan has supported the US-led invasions of Afghanistan and Iraq. However, it is still regarded in ruling circles as a constitutional impediment to the expansion of the Japanese military and its overseas deployment to pursue the interests of Japanese imperialism.

Earlier this month, Noda provocatively repeated remarks he made in 2005 that the Class-A war criminals commemorated in Tokyo’s Yasukuni Shrine were not in fact war criminals. The comment was first made in support of Prime Minister Junichiro Koizumi’s public visit to the controversial war memorial, which provoked criticism from China and South Korea, and led to a marked deterioration in relations between Tokyo and Beijing. Both countries have whipped up nationalist sentiment at home by exploiting comments by Japanese politicians denying the wartime atrocities carried out by Japan in Asia.

Noda’s latest remarks have also been noted in South Korea and China. The state-run *Xinhua* news agency warned: “The new Japanese government needs to start to appreciate the undisputed fact that a deeply-troubled China-Japan relationship and dire mistrust would by no means serve the interests of either side, not to mention that of the region and the world as a whole.”

Noda’s term as prime minister is likely to be just as brief as those of Kan and Hatoyama. He will preside over a fractured and unpopular government that is under pressure from big business to accelerate austerity measures that will further alienate voters. In last weekend’s *Yomiuri Shimbun* poll, the DPJ registered just 21 percent support, as opposed to 23 percent for the LDP. The largest share of respondents—46 percent—declared that they supported no party, an indication of the deep alienation, especially among young people, toward the entire political establishment.



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