

Japanese PM reshuffles cabinet to push tax hike

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Japanese Prime Minister Yoshihiko Noda carried out an anticipated cabinet reshuffle last Friday in a bid to consolidate his grip on power amid continued infighting within the ruling Democratic Party of Japan (DPJ).

Noda dumped Defence Minister Yasuo Ichikawa and Consumer Affairs Minister Kenji Yamaoka, both of whom are prominent supporters of the powerful DPJ faction headed by Ichiro Ozawa. At the same time, he promoted former DPJ president and foreign minister Katsuya Okada to deputy prime minister.

Okada has been given the task of implementing Noda's highly unpopular plan to double Japan's sales tax. Noda described the new lineup as "the best and strongest to push ahead with the inevitable topic of administrative, political and tax reforms," adding, "Mr Okada will not waver or run away from a major task. He is a politician who will produce results."

The government only announced its draft proposals for tax and social security reform on January 6. The plan involves a hike in the consumption tax rate from the present 5 percent to 8 percent in 2014 and to 10 percent in 2015. The government's ambiguous language implies further increases in the future, with some in business circles pressing for a rate as high as 25 percent, according to the *Yomiuri Shimbun*.

Japan's public debt currently stands at more than 200 percent of gross domestic product. While most of it is domestic not foreign debt, there are deep concerns in the corporate elite that Japan could suffer the same fate as European countries like Greece and Italy.

The regressive consumption tax is widely detested. At a press conference on January 6, Finance Minister Jun Azumi was asked about the additional tax hikes in the future, but he evaded the question, saying only that it was "a mid- to long-term task." However, he admitted: "We still haven't been able to gain the public's consent for [an increase to] 10 percent."

When the previous prime minister Naoto Kan tried to raise the tax, the DPJ was punished at the ballot box and lost control of the upper house of parliament. Popular hostility to the tax hike is also reflected in a sharp 30-point drop in support for Noda, to 36 percent, according to an opinion poll by the business daily *Nikkei* in December.

The DPJ suffered a significant setback late last month when nine of its lawmakers resigned in protest over the government's policies, including the planned tax raise. Significantly, eight were from Ozawa's faction and the other is from the group led by ex-PM Yukio Hatoyama. Ozawa has advocated a policy of stimulus measures and implementing the DPJ's 2009 election promises on social spending, in opposition to Noda's austerity agenda.

After submitting his resignation, Akira Uchiyama told reporters: "I'm disappointed with the DPJ, which has changed greatly... We're just the first group [of DPJ members to leave the party]. There are many lawmakers who feel the same way as we do." One political analyst speculated in the *Japan Times* that former farm minister Masahiko Yamada, along with several of his supporters, might also leave the party.

The nine defectors have formed a new party that will

try to act as a pressure group on the DPJ. In the words of its leader Uchiyama, it will “try to get the DPJ back on track and work with it to formulate policies for the good of the people.”

The continuing divisions inside the DPJ also reflect sharp differences over foreign policy. While continuing to back Japan’s military alliance with the US, Ozawa and Hatoyama have both advocated closer relations with China, now Japan’s largest trading partner. Before his removal in 2010, Hatoyama had pushed for the renegotiation of a highly unpopular deal with the US to retain its Marine base on Okinawa.

Subsequent DPJ-led governments under Naoto Kan and now Noda have toed Washington’s line, including on the Okinawa base. Last November, Japan tentatively agreed to join the Trans Pacific Partnership—a US-sponsored trade bloc aimed against China—despite its implications for the Japanese economy. Farm minister Yamada in particular has warned of devastating consequences for Japan’s highly protected agricultural sector.

There are deep concerns in ruling circles over the ability of the Noda government to implement unpopular policies such as tax hikes. A *Yomiuri Shimbun* editorial declared that “the nation’s political world must recover from its state of dysfunction”, and called for consensus between the government and opposition parties, the Liberal Democratic Party (LDP) and New Komeito.

“In today’s political world,” the newspaper declared, “a leader needs unflagging resolve, the ability to build consensus and enough persuasiveness to convince the public to bear the necessary pain.”

All the opposition parties, however, have refused to enter into talks with the DPJ on “tax reform.” They seem intent to pressure Noda to dismiss the parliament and call a general election, calculating they can only gain from the widespread disillusion with the DPJ. Whatever their public posturing, all of the parties support increased taxes and other austerity measures designed to place the burden of the worsening global crisis on the working class.

The latest economic data points to weak economic growth in Japan. The Bank of Japan last week downgraded its forecast for the next financial year to just 2 percent, down from 2.2 percent in October. It predicts a contraction for the current financial year to March. Previously, analysts projected a significant expansion late last year and this year after the country’s devastating earthquake and tsunami.



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