

Tax bill precipitates crisis for Japanese government

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Japanese Prime Minister Yoshihiko Noda's cabinet approved a sales tax hike bill on March 30 and submitted it to the Diet for deliberation. The measure has split the government under conditions of widespread popular opposition to the tax and disillusionment with all the major parties.

The ruling coalition is made up of the Democratic Party of Japan (DPJ) and its junior partner, the Peoples New Party (PNP). The push for the tax rise—which would double the rate from 5 percent to 10 percent in 2015—opened a rift. PNP head Shizuka Kamei claimed the decision contradicted the coalition agreement and threatened to quit the alliance. However, PNP financial services minister, Shozaburo Jimi, broke ranks with Kamei and signed the bill as a cabinet member.

The PNP's stance is not based on any opposition in principle. Kamei did not oppose the bill's outline when the cabinet approved it in February. But the small party is facing electoral annihilation. It won no seats in the 2010 upper house election, in part because former Prime Minister Nanto Kan proposed the tax hike during the campaign. Overall, the ruling coalition lost control of the upper house.

The PNP is planning to liquidate itself into a new right-wing party to be formed in May and headed by conservative Tokyo governor Shintaro Ishihara. The governor is vocal supporter of increasing the consumer tax. It is unclear at this stage how the PNP's manoeuvring will affect the ruling coalition.

However, Prime Minister Noda confronts a more serious threat within the ranks of DPJ itself. Former party leader Ichiro Ozawa, who heads the DPJ's largest

faction, is opposed to the tax hike.

Putting pressure on Noda, some 25 lawmakers close to Ozawa, including 4 deputy ministers or parliamentary secretaries, resigned from their party positions on March 30. Ozawa warned that if Noda pushed ahead with the tax hike, "his party support base will disappear." A split by Ozawa's group of 100 members in the lower house would be enough to end the DPJ's majority and cause it to lose power.

Ozawa was one of the chief architects of the DPJ's 2009 campaign. He presented the party as an alternative for "change" to the discredited Liberal Democratic Party (LDP), which had ruled Japan for most of the post-war period. Yukio Hatoyama became the new prime minister based on a program of limited social spending, an explicit promise not to raise the sales tax, and a foreign policy more independent from the United States. Hatoyama had Ozawa's full backing and their two party factions are often referred to as the "O-Hato group," reflecting their close relationship.

Only nine months after taking office, however, Hatoyama was forced to step down, amid large demonstrations over his broken promise to move a US Marine base out of Okinawa. Under intense American pressure, he agreed to keep the base on Okinawa. Ozawa simultaneously resigned as DPJ secretary general, after his involvement in scandals over violating political funding laws.

Two key elements marked the shift in the DPJ leadership in June 2009. Firstly, Kan, who became prime minister, completely toed the US line on foreign policy and, secondly, he turned to austerity measures,

as the sovereign debt crisis began to unfold in Europe. Divisions quickly appeared inside the DPJ. Ozawa challenged Kan for the party leadership just months after Kan came to office. Kan's first major economic proposal was to call for a higher sales tax, as demanded by the International Monetary Fund and international credit rating agencies.

Barely a year in office, Kan was forced to step down amid widespread hostility over his government's cover-up of, and inadequate responses to, last year's earthquake and tsunami-triggered nuclear reactor meltdown. Noda, who was Kan's finance minister, had to overcome significant competition from the O-Hato grouping to become DPJ leader and prime minister.

Faced with opposition within their own ranks, and an LDP-controlled upper house, sections of the DPJ are again calling for a "grand coalition" with the LDP to push through the tax increase. LDP, which has long advocated an increased sales tax, is demanding new elections as the political price for its support for the tax hike in parliament.

A *Mainichi* poll in early March found only 14 percent of respondents supported the DPJ. The LDP fared even worse on 13 percent. Every other party polled about 5 percent or less. A clear majority of respondents, 54 percent, said they supported no party. Significantly, 58 percent said they opposed the sales tax hike.

International finance capital is insisting that Japan slash public spending in order to reduce public debt, which now stands at more than 200 percent of gross domestic product. A recent *Wall Street Journal* article cited an estimate by investment bank BNP Paribas that even a 25 percent sales tax rate "would only temporarily stop the debt-to-gross-domestic-product ratio from rising."

The *Wall Street Journal* provided an economic prescription to Tokyo that included "higher female labour participation, more deregulation in social welfare services, easier immigration and more free-trade pacts." The newspaper added: "Higher retirement ages, a greater payment burden for services, and more competition in health and nursing care would also help

bring down the government's costs."

The huge public debt stem from the massive bailouts of the Japanese banks and corporations over the past two decades since the collapse of Japan's property and share bubbles in the early 1990s, as well as the eruption of global financial crisis in 2008.

Corporate taxes have also fallen as a proportion of government tax income from 35 percent, 20 years ago, to just 20 percent, due to the lowering of tax rates and a shift by corporations to offshore manufacturing. In the next fiscal year starting this month, nearly half the main budget will have to be financed by more bond issues. The major banks and insurance companies hold two thirds of central government bonds and are demanding tough austerity measures.

As in the US and Europe, the working class in Japan is being forced to bear the burden of the breakdown of the capitalist system.



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