

Japan's ruling Democratic Party splits

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Political powerbroker Ichiro Ozawa announced on Monday that he and 49 other lawmakers will quit the ruling Democratic Party of Japan (DPJ), setting the stage for further political instability and the possible collapse of the government headed by Prime Minister Yoshihiko Noda.

Those resigning include 38 lower house members and 12 from the upper house of the Diet, or parliament. The DPJ still has a majority in the lower house, though much reduced. Its numbers have dropped from 289 to 251, out of a total of 480. The loss of upper house seats will further entrench control of that assembly by the opposition Liberal Democratic Party (LDP) and its allies.

The split came after 57 Democrat lawmakers voted in the lower house against a bill to double the country's unpopular consumption tax to 10 percent by 2015. Another 15 abstained or were absent. Noda was able to push through the bill because of a deal he struck with the conservative LDP. (See: "Japan's lower house doubles consumption tax")

Ozawa has accused the party of betraying its 2009 election promise not to increase the tax. He was the chief strategist for the Democrat campaign for "change" that ousted the LDP after half a century of almost unbroken rule. "The DPJ under Prime Minister Noda is no more the DPJ that achieved a power change," Ozawa declared in resigning from the party.

Ozawa's aides told the media there would be "second and third waves" of resignations by DPJ lawmakers. Ozawa claims to command about 100 lawmakers in both houses, while other DPJ factional leaders close to him, such as former Prime Minister Yukio Hatoyama, lead dozens of legislators. The Ozawa faction has

reportedly split into three, however, with only a minority of its lawmakers prepared to quit the party.

A poll conducted by *Asahi Shimbun* last week found that just 15 percent of respondents had any significant expectations of a new party led by Ozawa, even though 52 percent opposed the consumption tax hike. The disapproval rating for Noda's cabinet reached a record 56 percent, up 5 percent from early June.

The Democrats remain deeply divided. Noda has taken disciplinary action against those who voted against the tax bills yet remain inside the party. Former Prime Minister Hatoyama's party rights have been suspended for six months and 18 other "rebels" were suspended for two months.

The split in the DPJ represents not only a crisis for the Noda government but for the political establishment as a whole. Falling support for the Democrats has not translated into strong support for the opposition LDP, which was deeply discredited when it lost office. The widespread alienation from both the major parties has been reflected in recent local elections by votes for various so-called independents.

The DPJ was formed in 1998 as an unstable coalition of factions that split from the LDP after 1993 and from the now defunct Socialist Party. Ozawa only joined the party in 2003. Since winning office in 2009, divisions within the government emerged over foreign and economic policy. Noda is the party's third prime minister in less than three years—following Hatoyama's resignation in 2010 and Naoto Kan's departure last year.

Ozawa and Hatoyama have opposed the austerity measures being demanded by the corporate elite and

advocated a foreign policy more independent of the US, so as not to alienate China, which is now Japan's largest trading partner. Ozawa's departure is just the prelude for even greater tensions within the government as the global economic crisis worsens.

The sales tax hike is essentially a measure to force the working class to repay the huge public debt—now more than 200 percent of gross domestic product. This debt is mainly due to the stimulus packages, and bailouts of banks and major corporations, that followed the collapse of property and share prices in the early 1990s.

A higher consumption tax is the main demand of the financial markets, including the global credit rating agencies, which threaten to downgrade Japan and increase borrowing costs if it is not implemented. Noda's predecessor, Naoto Kan, initiated plans to double the tax shortly after he was installed in 2010. His announcement was a major factor in the DPJ's loss of control of the upper house in elections later that year.

Ozawa's opposition to the tax hike not only reflects anxiety over the popular sentiment. There are concerns within the corporate elite that reduced consumer spending will lead to lower economic growth and falling tax revenues. As a result, the budget deficit and public debt could grow rather than decline.

According to SMBC Nikko Securities, consumer spending is likely to surge temporarily, especially for durable goods, before the tax increase, lifting economic growth in fiscal year 2013 by 1.4 percent. But as the higher tax rate is imposed, consumption will decline in fiscal 2014, lowering growth by 1.8 percentage points. Nobutsugu Shimizu, chairman of the Japan Chain Store Association, said the government was "reckless to raise the [consumption] tax rate under [conditions of] deflation."

Noda's government has a shaky parliamentary majority for now, but none of the conflicts within the party has been resolved. The LDP, which had offered "cooperation" with the DPJ over the consumption tax and related social welfare changes, is now in a more favourable position to block government moves in the parliament. Following the breakaway by Ozawa, LDP

leader Nobuteru Ishihara seized on the government turmoil to demand fresh elections.



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