How long will Japanese Prime Minister Mori last?

By James Conachy
1 August 2000

Only a month after the fragile Liberal Democratic Party (LDP) coalition was returned to office in the June 25 Japanese election, Prime Minister Yoshiro Mori and his cabinet are engulfed by a corruption scandal.

Timed to coincide with the opening of parliament, *Asahi Shimbun* published reports on Friday that Financial Reconstruction Commission chairman Kimitaka Kuze accepted up to 210 million yen ($US1.9 million) in advisory fees from the Mitsuibishi Trust and Banking Group between 1983 and 1996. Further allegations were made Saturday that he was offered 100 million yen in 1991 by construction company Daikyo. By Sunday he had been forced to resign.

Mori could be next. Yukio Hatoyama, leader of the main opposition Democratic Party of Japan, stated: “The premier is gravely responsible for appointing him”. Mori knew of the allegations before selecting Kuze for a cabinet position on July 4.

The corruption scandal follows weeks of attacks on Mori, Kuze and the Financial Reconstruction Commission over the proposal to purchase and then waive some $US3 billion in debts owed by the failing Sogo Corporation. After the government abandoned the plan, Sogo filed Japan's second largest corporate bankruptcy on July 12.

Fears of similar corporate failures have contributed to a fortnight of turmoil on the Tokyo stock and currency markets. On Friday the Nikkei index plunged 2.1 percent to 15,836 points—its lowest level since March 1999. The yen fell back to 109.9 to the US dollar.

Like Sogo, large numbers of Japanese companies have outstanding loans on which they can barely meet the interest payments. The stock and property market collapse in the early 1990's massively deflated asset values. The Nikkei is barely 40 percent of its 1989 level and property prices have slumped 60 percent since 1990. The fall has been even sharper in Tokyo, with property only worth a quarter of the 1989 values. Japanese banks are estimated to still have $US1 trillion in bad loans on their books.

Up to now the basic economic policy of LDP governments, particularly over the past two years, has been to shore-up ailing banks and companies by keeping interest rates low and pouring public funds into bank bailouts and massive public works programs, intended to stimulate economic activity.

The denunciations of the attempted Sogo bailout and the move against Kuze indicate that a political shift is underway against this decade-long policy. It has driven central and local government debt to $US6.3 trillion or 130 percent of Gross Domestic Product.

Despite the soaring debt, Mori proposed on July 25 to continue the same level of spending for the coming financial year, partly due to pledges made to the US at the G-8 summit that the government would work to prevent any return to recession in Japan.

This provoked scathing opposition. In its July 29 editorial entitled “Fiscal Folly”, *Mainichi Shimbun* wrote: “Apparently the government seems to have overlooked that the nation is in the midst of a national emergency, with outstanding government bond issues reaching 364 trillion yen ($US3.3 trillion) by the end of 2000. In our opinion, it would be mistaken to continue with the current expansionary fiscal policy.

“Politicians have to accept the fact that the only way to cure the nation's sickly finances is to trim the excesses of government spending down to the bone”.

An initial alignment of political parties around this perspective was evident in the election. The Democratic Party, formed out of a split in the LDP in 1993, campaigned for cuts in public works spending and increased its seats from 95 to 127. It declared the Sogo bailout proposal as “totally unacceptable”. Over the weekend it joined with the Social Democratic Party, the Liberal Party and the Communist Party of Japan to demand the resignation of Kuze.

Any change in the economic policy of the Japanese government, however, would require the support of the ruling LDP, or factions within it.

A factional struggle within the LDP, and a possible complete realignment within Japanese politics, has been brewing since the election. Mori was installed as prime minister after the death of Keizo Obuchi in April. Under his leadership the party suffered substantial losses on June 25, dropping from 271 to 233 seats in the 480-seat lower house. Its ability to govern is currently dependent upon the 31 seats of its coalition partner, the Buddhist-based New Komeito Party.

Following the election result, Mori's own Obuchi faction did not allow its main figures to be associated with the new cabinet. Mikio Aoki, the former Chief Cabinet Secretary, refused to stay on in the position. The *Japan Weekly Post* commented: “[This] can be taken to mean that the Obuchi faction, the largest faction inside the LDP, has given up on the Mori administration. It also means that the new Mori administration's fate has been determined”.

Denied factional support, Mori was forced to assemble his cabinet from long-serving but little known members of the LDP. The average age is 66, the most elderly cabinet since 1990.

A challenge to Mori, and the control of the LDP by the Obuchi faction, is expected from Koichi Kato, the former LDP Secretary General and head of the “non-mainstream” factions that formed in the party in 1990. A member of the Kato faction told *Yomiuri Shimbun* on Sunday: “I doubt very much whether the LDP will be able to effectively contest election battles next year with Prime Minister Mori in the leader's seat”. Kato has reportedly already started campaigning for a LDP presidential election and a change in the party leadership.

Kato was instrumental in bringing about the short-lived 1994 coalition between the LDP and the Socialist Party, now the Social Democrats. Kato stood against Obuchi for the party leadership last September, opposing both the unchecked deficit spending and the coalition with New Komeito, which supports this economic policy. He is believed to favour a coalition with the Democratic Party.

Last week he proposed establishing joint policy study groups between younger members of the LDP and members of the Democratic Party. Kato told the press: “How should politics be conducted? We may not have an answer that can be expressed clearly, but we need to have a common awareness of the issues”.

Yomiuri Shimbun commented: “Kato hopes the younger generation, which has a sense of crisis over the future of social security and the nation's finances, will trigger structural reform if its collective voice is strengthened”.

In an interview last June Kato stated that Japan needed “a Thatcher”, declaring: “Both America and Britain had periods of big government and state economic plans. In the 1980s and 1990s, although politicians were denounced for it, these countries embarked on the difficult road of returning to liberalism. Japan has to do the same thing now, even though it's a cycle or two behind”.

Kato is not the only one positioning within the LDP for a leadership fight. Some 50 legislators have formed the “LDP for Tomorrow” group, calling for the resignation of Mori and the current LDP Secretary General Hiromu Nonaka. The group is led by Nobuteru Ishihara, son of Tokyo governor and right-wing populist Shintaro Ishihara, Makiko Tanaka, the daughter of former Prime Minister Tanaka and Taro Kono, son of the current Foreign Minister Yohei Kono.

The crisis that confronts all sections of the Japanese political establishment is the implications of abandoning the increasingly untenable deficit spending policy. Figures released this week demonstrate that Japan's economy still hovers on the brink of recession. While industrial output rose, retail sales fell for the 39th consecutive month and official unemployment increased from 4.6 to 4.7 percent.

Government spending remains a major driving force in economic activity and any substantial cutback could see Japan slump into a severe recession, triggering widespread corporate collapses, mass unemployment and a crisis in the banking system. As well as the explosive social tensions this could generate in Japan itself, it could have global ramifications. Analysts have warned of the threat to the vastly over-valued American stock market if Japanese banks and firms were forced to liquidate US assets to shore up their balance sheets.