

# Tokyo's New Government - The End of Japanese Politics as We Know it?

## Introduction

'Historic', a 'political earthquake' or simply the 'end of Japanese politics as we know it' are amongst the attributes assigned to the crushing victory of the Democratic Party of Japan (DPJ) over the incumbent Liberal-Democratic Party (LDP) in Japan's Lower House elections on August 30.

Probably a bit of all of that with the result that LDP is out of power after 54 years of almost uninterrupted rule. Since the LDP was founded in 1955 (by Yukio Hatoyama's grandfather Ichiro Hatoyama whose tenure as Prime Minister in the 1950s is above all remembered for his achievement having normalized relations with the Soviet Union) it found itself out of power only once, for 11 months in 1993/1994.

And even during that brief period in opposition, the LDP was still by far the largest party in parliament, but replaced in power by a fragile 8-party coalition government led by maverick politician and LDP-defector Morihiro Hosokawa and the DPJ founder Ichiro Ozawa. Back then, the 1993/1994 coalition government took advantage of public dissatisfaction with the incumbent LDP, weakened and fragmented by a series of high-profile inner-LDP financial and corruption scandals including a number of the party's key lawmakers and inner-party powerbrokers. The LDP's financial and corruption scandals of the 1980s were 'different' from previous cases as they made it to the public with the public for the first time interested in and scandalized by them.

The election results speak for themselves as regards the LDP's almost complete loss of trust from the Japanese electorate and most probably its inability to return to governing power any time soon.

The Liberal-Democrats won only 119 seats down from 300, losing 60% of the Lower House seats it gained in the 2005 Lower House elections under the leadership of former Prime Minister Junichiro Koizumi.

The DPJ under Yukio Hatoyama on the other hand won the landslide victory that was widely predicted winning 308 of the 480 available Lower House seats, only 12 seats short of a two-third majority which would have enabled the DPJ to pass laws in the Lower House without Upper House approval. Not that this would have really mattered given that the DPJ also holds a majority in the second chamber of the Japanese parliament since its Upper House elections victory over the LDP in 2007. Japan's electorate voted 480 members from among 1.374 candidates for 300 single-seat constituencies and 180 from 11 proportional representation blocks across Japan.

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Currently, the election winners are holding talks with members of its opposition allies-the Social Democratic Party (SDP, 7 seats) and the People's New Party (3 seats)-on forming a coalition government. To be sure, the DPJ would not even have to invite others to govern Japan with them. Having won 308 Lower House seats, i.e. 68 seats more than necessary to form a government without any coalition partners at all. However, Yukio Hatoyama stuck to its promise to include smaller parties in what will be a coalition government inaugurated by mid-September. There is a near-consensus amongst analysts and Japan-watchers that the influence of the DPJ's junior coalition partners on DPJ domestic and foreign policies is bound to be fairly (or indeed very) limited given the small number of seats the SDP and People's New Party are holding.

### **The End of LDP-style Politics, Maybe**

Whether Japan in August really experienced the 'political earthquake' and the end of Japan's postwar political system as the media and analysts suggest, remains yet to be seen. This depends not least on the DPJ's ability to offer the Japanese electorate a different style and set of policies not centered around the previous LDP-style 'client-state' and 'interest-group' policies. The once 'catch-all' LDP is made up of numerous factions and so-called 'policy tribes' ('zoku' in Japanese) each of them representing a particular interest group, be it big business, the farming and notably the construction sector.

While construction companies provided the LDP with generous party funding, they got the LDP's approval (and under constant LDP pressure the necessary low-interest rate loans from the country's banks which for decades did not ask for guarantees and financial securities from its debtors in the construction sector) to build unnecessary and countless roads, highways and bridges over all over Japan. This, as the Asahi Shimbun put it an editorial earlier in August, turned Japan into a permanent 'state of construction.'

Former reform-minded Prime Minister Koizumi decided to end the 300 most unnecessary public construction projects at the beginning of his tenure in 2001. However, Koizumi's efforts to stop unnecessary public construction projects had only limited success, partly due to strong resistance by anti-reform forces within his own party and partly (or probably more importantly) because 'constricting' construction companies could have dried up very lucrative sources of LDP party funding.

The result of the LDP-construction sector ties led to an astronomically high amount of non-performing loans, a near-collapse of Japan's banking and financial system and eventually favored (or largely caused) the burst of Japan's bubble economy at the end of the 1980s. This was followed by Japan's so-called 'lost decade' characterized by more than a decade of zero economic growth until growth resumed in 2003/2004.

Japan's political landscape has in recent years changed towards a two-party system with the DPJ and LDP competing for votes even if the LDP's election defeat does not necessarily point to anything resembling 'real' competition between two political parties.

A change of direction is what the LDP needs to return to becoming competitive, argues Jiro Yamaguchi, professor of political sciences at Hokkaido University. However, he is concerned that the LDP might be in danger of becoming of what he calls a 'minor party' instead choosing the 'wrong' direction by pursuing an even more conservative agenda, including attempts to revise the country's pacifist constitution and advocate a more bellicose approach toward North Korea. 'If the LDP doesn't become more moderate, it risk becoming a minor party, Professor Yamaguchi said in an interview with the Japanese press.

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The public's trust and confidence in Hatoyama and the DPJ to change the ways of Japanese politics in the meantime is yet fairly limited as recent opinion polls in Japan seem to indicate. According to recent polls conducted by Japan's main daily newspapers, the majority of Japan's electorate does not really seem to believe in Hatoyama's election campaign promises, above all in his pledges to provide the electorate with a generous increase in social spending and subsidies.

'Japan's public, Jeff Kingston, professor at Temple University in Tokyo sums up his assessment of the mood of Japan's electorate in an interview with the Financial Times, 'had voted for a change they don't really believe in and a leader they are not all that crazy about.' If that is true (and that remains to be seen), the outcome of the August 30 Lower House elections was probably more a vote against the incumbent LDP than one for the DPJ.

On a positive note, Japan's electorate has seemingly 'grown up' and the DPJ's victory is probably an indication that the Japanese public is demanding more transparency, accountability and indeed democracy from its political class according to Professor Noriko Hama, a very well-known and outspoken critic of LDP policies for years. 'Civil society is emerging from the ranks of subjects and salarymen' she said in an interview with the Financial Times on September 3. Not a small improvement for a public that was long known for being apolitical or indeed its apathy towards day-to-day politics in Japan.

The negative 'side-effect'- or put differently the 'by-product' in democracies- could be that Japan's increasingly mature and indeed impatient electorate could become dissatisfied and frustrated with the new government unless it is able to deliver on its election campaign promises very quickly.

#### Economic Crisis and Reforms

Japan is in the middle of an economic recession burdened by an overregulated economy, enormous public debt, record-high unemployment (5.7%) and suspended economic and structural reforms.

Mr. Hatoyama and his aides have so far been very vague on the necessity of continuing economic and structural reforms and there are concerns amongst the country's reform-minded economists and business that economic reform and deregulation will not find themselves on top of the government's policy agenda any time soon.

The reform of Japan's postal system e.g. centered around its privatization to be completed by 2017 is (or at least until recently was) part of the country's (currently stalled) reform process. Mr. Hatoyama, however, has yet to offer a clear-cut position on postal reform, but his announcement to 'drastically review' the post's envisioned privatization is feared to be a synonym for de-facto ending it.

Japanese business leaders for their have already voiced their concerns about the DPJ's possible plans to ban the 'use' of so-called 'temporary workers' by manufacturing companies. 'I don't feel comfortable with the DPJ's thinking on temporary workers, said Masamitsu Sakurai, chairman of Japan's Association of Corporate Executives speaking to the press after the elections. He thereby referred to DPJ plans to revise the 2004 LDP decision to allow manufacturers to use short-term labor had benefited companies and employees.

#### Promising (a lot of) Money

During the election campaign the DPJ has promised extra funds and subsidies to the electorate, small business and various other groups. Hatoyama e.g. has pledged to revisit Ja-

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pan's ¥207,000 billion (\$2,172 billion) budget to increase social spending, pay parents a ¥312,000 (\$3,273) a year child allowance, increase pensions and the number of government-financed higher education scholarships. Additionally, highway road tolls will be scrapped and corporate taxes for small companies will be reduced to 11 percent.

Furthermore, Mr. Hatoyama has pledged not to raise taxes for the next four years, failing however to mention that this and other envisioned tax-cuts will be adding to Japan's enormous high public debt, likely to reach 200 percent of the country's GDP by the end of this year. It is common (economic) sense that a country burdened with a deficit almost twice its GDP is very likely to have difficulties handing out additional funds and subsidies, unless it can count on additional tax revenues generated by either raising taxes or increased tax revenues related to profits generated by Japanese business. While the first is seemingly not an option in view of Hatoyama's promise not to raise taxes in the years ahead, the economic recession and the collapse of Japanese exports excludes-at least for the time being and until Japan can report solid economic growth rates-the second option as well.

Leaving grim economic and fiscal realities aside, the DPJ's promises to spend a total of \$160bn on financial support and subsidies even if some of the subsidies such as direct subsidies to farmers could be reduced or even abolished in the years ahead. If that were to happen, Japan's farmers-traditionally backed by the LDP and organized in powerful farmer's associations and lobby groups-would probably very quickly turn against the DPJ. And there will other budget cuts under the new government, including plans to review (i.e. partly cancel) the 15-trillion-yen (\$162 billion, €114 billion) economic stimulus supplementary budget implemented by the outgoing LDP government.

On a positive note, the DPJ will shift spending from public-works projects to social spending boosting welfare spending in a society amongst the oldest in the world. Increases in social spending will be welcome in Japan, not least due to fears of growing social inequalities, a concept largely unknown in Japanese society until a few years ago. Opinion polls indicate that the percentage of Japanese who regard themselves as belonging to the middle class has shrunk from 90% to less than 50% in recent years. Furthermore, the majority of the public believes that inequality and rising income gaps are rising rapidly even if Japan's economic and social realities might reflect these assessments yet only partially.

#### **Improving Bureaucracy Accountability**

Trimming down the influence of Japan's powerful ministerial bureaucracy was one of the DPJ's central election campaign issues. Breaking up the so-called 'iron triangle', i.e. the close relationship between bureaucrats, big business and politics, is reportedly a central part of the DPJ domestic policy agenda in the months to come.

In order to do so, the DPJ has pledged to appoint 100 lawmakers from the DPJ-led coalition in government as senior vice ministers (up until now vice-ministerial posts in Japan are civil service positions, not filled by political appointment) and parliamentary secretaries to improve or indeed institutionalize parliamentary control of Japan's ministerial bureaucracy.

The DPJ has also announced to end the practice of 'amakudari', meaning 'descent from heaven', whereby government officials after retirement take up senior positions in the companies they oversaw. This is without a laudable and long overdue initiative as it would (at least on paper) strengthen or indeed re-introduce the government's control over possible and existing conflict of interests between business and politics limiting (again: on paper) favorable treatment for companies headed or co-headed by former high-ranking government officials.

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The Hatoyama government will also establish the so-called National Strategy Bureau, a body that will map out budgets as well as the country's foreign and national security policies. The newly-established so-called Administrative Reform Council will be reporting directly to the Prime Minister's Office and its main mission will be to watch over wasteful spending and financial irregularities among central government bureaucrats. This too will ruffle some feathers within Japan's elite bureaucracy, but recent high-profile scandals such as the loss of 50 million pension records within the Ministry of Health, Labor and Welfare in 2007 have probably limited the bureaucracy's courage to (at least for now) protest too loudly against improvements of supervisory systems and procedures.

#### Comes in Ichiro Ozawa

The outspoken (and at times controversial) political heavyweight and DPJ founder Ichiro Ozawa is back in the party front line after having been temporarily marginalized over a financial scandal earlier this May. Back then, Ozawa was forced to step down as DPJ president amid a fund-raising scandal involving one of his assistants. Given that the financial scandal did not involve him directly, however, it did only fairly limited damage to his position and influence within the DPJ.

He was appointed the DPJ's Lower House elections chief strategist, and Mr. Ozawa is indeed widely regarded as the architect of the DPJ's election triumph.

Mr. Hatoyama and his aides were clearly aware at all times that an election victory managed by Ozawa would come at a 'price.

On September 4, Hatoyama announced to appoint Ozawa as DPJ secretary-general, traditionally a very powerful within Japanese parties in view of the secretary-general's strong influence over cabinet nominations (a de-facto right under LDP leadership over the decades).

The DPJ is planning to centralize power in cabinet, reportedly seeking to prevent politicians outside the cabinet from playing a dominant role in the policymaking process. That would de-facto exclude Mr. Ozawa from policymaking, at least in theory.

The theory is one thing, the reality of day-to-day Japanese politics probably another, but departing DPJ secretary-general Katsuya Okada (who will be Foreign Minister in the new administration) was quick to spell out that Ozawa's nomination to DPJ Secretary-General will not enable Ozawa to exert strong influence on government policies.

'The party leader and Mr. Ozawa agreed that policymaking would be unified and that the secretary-general would not interfere, he told Reuters in Tokyo.

Japanese politics are different today, but there are precedence in Ozawa's political career when he used his inner-party influence and positions to decide about the length and eventually end of parties in power. As LDP secretary-general from 1989-1991 Ozawa was considered to be partly responsible for the LDP's loss of power in Lower House elections in 1993, and he is also considered to have been the driving force behind the collapse of the fragile 1993/1994 non-LDP eight-party governing coalition.

The Nikkei Shimbun, Japan's leading business newspaper reported that Ozawa has increased the number of legislators expected to align with him in policy decisions to 120, from 50 before the elections. Hatoyama for his part has 45 lawmakers in his camp, the Nikkei writes. While such internal groupings are common and part of inner-party competition in Japan, the fact that Ozawa has more than twice the DPJ lawmakers behind him than the in-

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coming Prime Minister says probably something about the DPJ's inner-party (dual) power structures.

### **Working and Arguing with Washington**

While Hatoyama and the DPJ have in recent months announced to build a 'close and equal Japan-U.S. alliance while developing an autonomous foreign policy strategy for Japan', Washington is somehow concerned about the DPJ's assertiveness and plans to adjust some of the perceived asymmetries of the US-Japan security alliance.

Hatoyama e.g. has announced to propose a revision of the Japan-U.S. Status of Forces Agreement (SOFA), including provisions for the extradition of criminal suspects belonging to US forces in Japan. Furthermore, he plans to re-examine the US realignment plans of the U.S. military forces stationed in Japan. While LDP-led Japan and Washington agreed to complete the transfer of the US Marine Corps' Futenma Air Station on Okinawa to the coastal area of Camp Schwab in Nago (also Okinawa) by 2014, Hatoyama does not exclude a possible relocation outside of Okinawa.

The DPJ might also be planning to demand a cut in funds Tokyo is providing for the stationing of the roughly 50.000 US troops stationed in Japan. Japan is currently funding the US military presence with \$5 billion per year.

The US of course does not want to see a reduction of the funds it receives from Tokyo (the so-called 'host nation support') and does not plan to revise its forces' realignment plans for Japan and we can expect tough bilateral negotiations on both issues in the months (and probably years) ahead. To be sure, Japanese regional security policies independent from US approaches and strategies towards Asia are unrealistic. The DPJ is aware and concerned about China's rapid military rise and modernization and acknowledges that the alliance with the US is and will remain central to Japan's regional security strategies and policies. Not least due to the potential threat from North Korea and its increasingly accurate and sophisticated Taepodong short-range missiles able (if un-intercepted) to reach Tokyo in less than 10 minutes.

### **Re-Adjusting Rhetoric and Policies**

The DPJ's policy changes on the future of Japan's refueling mission (since 2001) in support of U.S.-led antiterrorism operations in Afghanistan are another potential source of US-Japanese friction. Previously the DPJ had staunchly opposed the dispatch of Japanese navy ships to the Indian Ocean to provide US military with logistical and medical support, citing the lack of a UN mandate for that mission.

Recently and probably much to Washington's relief, Hatoyama has indicated that the mission will continue, at least until January 2010 when the law authorizing the mission in the Indian Ocean expires.

What happens to the Japanese mission after that is yet unclear although there are some reports that Tokyo might indeed end the in the Indian Ocean in favor of expanding its civilian humanitarian operations in Afghanistan. The DPJ has also yet to make up its mind in a clear-cut way whether it is in favor or against of continuing the navy's current anti-piracy mission off the coast of Somalia. While in opposition, the DPJ was fiercely opposed to this mission (begun in March 2009) arguing that it violates Japan's 'pacifist' constitution (Article 9 of the constitution in particular). Recently, however, Mr. Hatoyama is having second thoughts about his party's resistance to the mission, not least because more than 2.100 oil-tankers are passing through the Gulf of Aden to transport oil towards Japan every year.

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During the election campaign Mr. Hatoyama was accused of 'anti-Americanism', partly due to what he said on the US-Japan security alliance, but also partly of what journalists and analysts reported that he said and wrote (but in reality did not).

A few days after the election victory, Mr. Hatoyama sought to set the record straight referring to excerpts of an essay written by himself for the Japanese magazine 'Voice' and reprinted (without the permission of the Japanese editor, as it turned out) in the New York Times. The translated essay in the New York Times, Mr. Hatoyama pointed out (correctly), omitted central parts of the original version in Japanese and his general concerns and criticism of globalism were wrongly translated as criticism of 'American-style globalism.'

In reality, Hatoyama (equipped with a PhD. in engineering from Stanford University) can hardly be accused of 'anti-Americanism', at least judging by his rhetoric embracing US President Obama's approach towards international politics planning to follow Obama's lead on global 'dialogue and cooperation.'

**And Now?**

Yukio Hatoyama will be put into office during a special parliament session called for the week beginning of September 14.

Once in office, Prime Minister Hatoyama has to manage his party with a parliament caucus dominated by many first-time members in the Lower House. In fact, 50% of the DPJ's parliament caucus is made up of first-time parliamentarians meaning that there will be a lot of inexperience and unfamiliarity with the ways of Japanese politics in the Lower House.

For all the enthusiasm about the DPJ's victory, Japan's political system and probably more importantly its political culture do not change overnight, not least because the DPJ is not necessarily a new or 'fresh' political force.

Many of DPJ lawmakers formerly belonged to the LDP (including Yukio Hatoyama and Ichiro Ozawa) and the former Socialist (today Social Democratic) Party who did not decide to join forces in 1996 because of common ideologies and policies but mainly (if not exclusively) to challenge the LDP's near-monopoly of power in Japan.

The Japanese electorate is expecting new policies and results, above all Mr. Hatoyama living up to his promise to increase social spending and subsidies for various and individuals. Given Japan's dramatic fiscal situation and the world's biggest public deficit, disappointment and broken promises seem almost inevitable.

Being in opposition and running a successful election campaign was one thing, running the world's second biggest economy in the middle of an economic recession is quite another. Mr. Hatoyama is probably about to find out just that.

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