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JAPAN POST-ELECTION ASSESSMENT

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Japanese Prime Minister Nakasone began his prime ministership with a foreign policy which was so favorable to firm alliance with the United States and to increased defense efforts that he got into difficulty with public opinion. However, he muted his strong positions slightly and emphasized domestic issues for a time, and found himself with strong public support, including support for a somewhat more activist foreign policy. However, Nakasone now finds himself embroiled in critical domestic dilemmas.

Prime Minister Nakasone came to office at a time when the nation needed fundamental administrative and budget reform. Inability to carry out promised administrative and budget reforms was a principal reason for the resignation of Nakasone's predecessor, Suzuki. Several years ago, the Japanese developed a consensus that their government was too big and too expensive. They appointed commissions to investigate, and charged an agency to make specific recommendations. The agency has now demanded a fundamental restructuring. The Japanese press predicts that the plan will never pass, because Japanese bureaucrats will sabotage it. The press also demands that administrative reform be given the first priority by the Prime Minister, and demands that he step down if he cannot institute the reforms. Prime Minister Nakasone is proceeding with deliberate speed, allowing all suggested reforms to be fully debated in the Diet but pressing for at least some real movement.

Parallel to the administrative problem is a budget problem. For many years the Japanese government has run huge deficits. In order to satisfy a law which requires that the Japanese budget be balanced, the government has issued public bonds to cover the deficits. Presently the government spends more money servicing these bonds than any other industrialized state. An extremely high rate of saving, which reduces the inflationary impact of the deficit, and very fast economic growth have, in the past, made possible the continuation of such a system without serious injury to the economy. However, several years of low growth rates are now worrying officials. Japanese planners produced a budget in which only defense expenditures and foreign economic assistance would grow while all other expenditures are frozen or reduced.

Such a budget encounters two difficulties. First, it does not address the real issue. Japan has no difficulty in financing its huge deficit because of the high level of Japanese savings. Instead, Japan's problem is an inadequate tax structure. The Japanese tax system was designed for high growth with high inflation; the Japanese have neither. The government has been attempting to cut expenditures, which merely depresses the economy, cuts tax yields, and reduces the deficit very little. Tax policy and agricultural policy, which subsidize farmers and encourage inefficient use of Japan's scarcest resource, land, are the basis of Japan's problems and the political system seems unable to deal with them. This situation will only get worse as the technology catchup phase of Japanese growth ends and the population ages rapidly over the next two decades. Japan faces serious economic challenges and shows little political will to deal with them. Second, Japanese voters vote their pocketbooks, and the Liberal Democratic Party's (LDP) traditional strategy has been to coopt all of the nation's important economic interests. All of these important interests are protesting the proposed tight budget. Prime Minister

Nakasone's strategy for dealing with the situation remains unclear. Japan is growing at 4 percent, but its problems should not be underestimated.

The Prime Minister's situation is complicated to an extraordinary degree by the guilty verdict against Nakasone's principal political patron, former Prime Minister Kakuei Tanaka, who was convicted of accepting a bribe of about \$1.6 million from Lockheed Corporation. While Tanaka had stepped down as Prime Minister and resigned from the LDP during his six-year trial, he did not resign from the Diet during appeals. He maintained his innocence and announced his intention to remain in the Diet. A motion before the Diet advocated stripping him of his seat. Prior to the December election, the opposition parties boycotted the Diet. Although Prime Minister Nakasone had a majority, Japanese society's emphasis on consensus meant that Nakasone would suffer severe political damage were he to ignore the boycott completely. In the electoral campaign, Nakasone attempted to maintain his position and the dignity of his office while dealing with this delicate dispute. He had to placate Tanaka sufficiently to avoid losing the Tanaka faction's vitally needed support. He had to dissuade dissident factions within his own party from bolting the party and allying with one or more of the opposition parties to form a new ruling party. He had to cope with the boycott and he must keep the electorate satisfied.

Prime Minister Nakasone attempted to regain the initiative in November. U.S. President Reagan, West German Chancellor Helmut Kohl, and Chinese Communist Party Chairman Hu Yao-bang visited Japan in November. Nakasone used these visits and his now-popular foreign policy in an effort to, in his words, "erase the soiled blackboard." He then dissolved the Diet and called an election, asking the electorate to judge his own record rather than making him dangle from the problems of his predecessor.

These efforts by Nakasone were insufficient to avoid a severe setback in the December 18 election. Nakasone went into the election with 286 out of 511 seats and came out with only 250, less than a majority. However, he signed up 9 independents and formed a coalition with the small New Liberal Club (which was originally founded by defectors from the governing LDP). This was sufficient to preserve his party in power and, after a painful apology for leading the party into such losses, to retain the presidency of the LDP and hence the prime ministership at least until November 1984.

The LDP losses will weaken Nakasone in dealing with the crucial foreign and domestic issues. Critically for the U.S., Nakasone will almost certainly be unable to deliver fully on promised trade concessions and increased defense budgets. Domestically, administrative and budget reform will become more difficult.

Nakasone will nonetheless seek to overcome his Tanaka setback by continuing as the spearhead of more assertive Japanese foreign policy and of more reformist domestic policies. This strategy may well succeed; such policies would seem to be the wave of the future in Japan. Even if they were to fail, however, and if Nakasone were to fall in a further electoral debacle, there would be little threat to the basic line of conservative, pro-Western, pro-business Japanese policies. Prime ministers can change, the dominant factions can change, and the LDP can even lose its majority without causing

massive discontinuity in Japanese policy. Japan is governed by a coalition of factions, not by a Western-style party. A disastrous loss for the LDP would cause a factional realignment rather than the emergence, a la France, of a leftist government: the major LDP factions would join with the conservative Democratic Socialist Party or with the right wing of the Japan Socialist Party and pursue policies which would be only incrementally different from today. There is hence very little risk for foreign countries or foreign banks and business in the Prime Minister's difficulties.

In relations with the United States, Japan faces an American election year in which the principal candidates will be tempted to compete in offering protection against imports from Japan. Such a protectionist outcome could seriously damage Japan, which already faces severe curbs on cars, televisions, textiles, steel, and others. Japan's trade surplus with the U.S. was \$19 billion in 1982, \$20 billion in 1983. On October 21, Japan promised to increase domestic demand (by raising public works outlays and cutting taxes) and also to cut import duties on over customs procedures. Such measures move Japan in the direction of a more open economy, whereas the West is moving toward protectionism, but they usually are weakly implemented and therefore unsatisfying. Just as important, the primary sources of the West's problems are often at home, not in Japan: large budget deficits, high interest rates which reduce investment and slow technological change, and an overvalued dollar which encourages imports and discourages exports, all expand the U.S. and European deficits. Japan will continue to make small concessions, and has agreed to join an ad hoc group to study the problem of the "weak yen." At the same time, Japanese have studied the four economic crises that have occurred in Japanese-American relations since the 1960s and have concluded that nothing the Japanese government did was helpful in their relationship with the Americans. Only when the American business cycle turned upward did American government, industry, and labor relent and regard the Japanese-American crisis as over.

The Japanese also fear their conversations with Americans on military issues. While the Japanese as a nation intensely dislike the Russians, and perceive them as aggressive, they do not perceive them as directly threatening to Japan. Therefore, they question the appropriateness of the massive increases in defense expenditures demanded by the Reagan administration. The Japanese perceive their foreign policy as successful without much military force, whereas Ronald Reagan sees military force as the central core of any foreign policy. While the U.S. sees military force as primarily oriented to external events, the Japanese fear the domestic political influence and risk of a large military force--a lesson inculcated by two millennia of military domination. While the current American administration perceives the military as the foundation of a policy to deal with the nation's basic uncertainties, the Japanese uncertainties have to do mainly with lack of land, lack of raw materials, and an isolated position; they believe in the educational budget as the foundation of defense against such insecurities.