

The ruling party factions line up for an autumn political crisis

Japan is faced with the likelihood of a major political crisis in early autumn, when a growing dispute in the country's policy-making circles over the proper response to rapidly deteriorating conditions in the world and Japanese economy will intersect expected political maneuverings in anticipation of the November convention of the ruling Liberal Democratic Party (LDP). Two questions are expected to dominate the autumn dispute. First, whether budget cuts and other efforts to streamline the Japanese government should be reduced in priority in favor of measures, such as increased government spending and tax cuts, to stimulate the ailing domestic Japanese economy. Second, whether Prime Minister Zenko Suzuki will be re-elected President of the ruling party, which would guarantee his continued tenure in office.

Through numerous in-depth discussions with Japanese corporate research directors, business leaders, and leading journalists, *EIR* has assembled a uniquely well-informed picture of the economic policy debate now raging in Japan. The information and evaluation we present here has yet to reach publication in Japan or elsewhere, and demonstrates that the implications of this dispute go far beyond the short term concerns often voiced in Japan to reduce budget deficits and avoid increased taxes. Fundamentally at issue is an effort by one faction of Japan's policy elite, associated with Chairman Yoshihiro Inayama of the Keidanren (big business federation) to reverse the basic, high-growth economic strategy that has guided Japan throughout its remarkable post-war development, and impose a "low-growth" economic strategy. This economic dispute will greatly influence the outcome of the leadership struggle in the ruling LDP.

The administrative reform

On the surface, Japan appears to be in an economic policy dispute not much different than that being acted out in Washington: some forces are calling for large-scale budget cuts and streamlining of the government, while other forces resist the proposed cuts. The argument most often made for this so-called administrative reform is that taxes in Japan are already too high, and the huge budget deficits racked up by the government in recent years poses a major problem for the domestic economy. Thirty-two percent of the Japanese govern-

ment budget will be financed by deficit spending this year alone.

The business community in Japan is nominally firmly united behind the administrative reform campaign, led by 86-year-old Toshio Doko, the powerful dean of the business community, and Keidanren's Inayama. Several of the LDP's most prominent political figures have aligned themselves with the administrative reform campaign as well. The two most important are Prime Minister Suzuki himself, who has pledged his "political life" to carrying through with this reform, and former Prime Minister Takeo Fukuda, who is expected to challenge Suzuki for the premiership this autumn.

Nominally pitted against this "administrative reform" view are the proponents of "stimulation" of the domestic Japanese economy through increased public works and generous tax breaks for investment. Economic Planning Agency Director Toshio Komoto, himself a former businessman, is the leading spokesman for this view, along with Shintaro Abe, Minister of International Trade and Industry.

Two views

Several leading business sources, including an executive of one of Japan's leading private firms, and the research director of a private bank, informed this writer that there are two fundamentally opposite interpretations of the administrative reform in Japan, a dispute which transcends the more superficial dispute over budget cutting versus domestic economic stimulation.

At issue is whether the economic guideline outlined by the powerful Ministry of International Trade and Industry (MITI) in its "Policy Vision" for the 1980s, is still the appropriate policy for Japan. In this document, MITI argued that in anticipation of a return to high-growth worldwide in the 1990s, Japan must upgrade its industrial structure to a higher level of technology content throughout the decade of the 1980s, a policy that necessitates uninterrupted high levels of capital investment and annual economic growth rates of no less than 5 percent. Implicit in this policy is that Japan must transfer to the developing countries many of its basic manufacturing industries, while upgrading the technology content of its domestic industrial structure. Precisely this

policy—high levels of capital investment and promotion of frontier industrial development—has been the secret behind Japan's rapid growth.

The debate over the MITI policy guidelines for continued high growth has been sparked by the sharply adverse effect of the world industrial downturn on Japan. In previous recessions, Japan has fared better than other developed nations because of the country's ability to maintain high levels of exports. World recessions have generally been counteracted in Japan by a combination of government-sponsored "stimulation" programs and high export levels, which enabled Japan to have continuous high levels of capital investment—avoiding the productivity declines and industrial obsolescence now smothering the United States. However, the world industrial downturn is now so severe, that Japanese exports in 1982 will show the first drop in 30 years.

In this context, Keidanren's Inayama is promoting the view that the world has entered the "era of low growth," and that the Japanese government and private sector must adapt to this "new reality." Inayama, who is known as "Mr. Cartel" for his opposition to competition in the Japanese economy in favor of tightly centralized coordination, is said to believe that Japan cannot achieve the 5 percent growth rates cited by MITI as necessary to achieve transition to the high-technology industrial structure. The administration reform is seen by Inayama as part of the low-growth strategy; he says fiscal austerity must be maintained because, without the export market to drive the economy, economic stimulation measures will wrack the country with debt and high inflation; and, he says that Japan will suffer from more "shocks," both economic and political, in the coming period, due to the strained international environment, thereby requiring of Japan a centralized "crisis management" capability for both the business community and the country overall.

Former Prime Minister Takeo Fukuda is said by several leading Japanese journalists to be closely associated with Inayama's pessimistic outlook. Since at least the first oil shock, Fukuda has argued that the growing danger of war in the world stemmed from nations scrambling to secure dwindling supplies of raw materials. To avert such disastrous scrambles, Fukuda has said, it is necessary to reduce world economic growth rates and thereby reduce resource consumption. Fukuda has gone so far as to praise the writings of the anti-science Club of Rome (*The Limits to Growth*).

This is not to deny Fukuda's ability to conceptualize and promote pro-growth policies, as was amply demonstrated during his two-year period as Prime Minister, from 1976-78, during which time Japan promoted international cooperation for thermonuclear fusion energy research, and took actions to expand Japan's relations with the developing countries. Several leading journalists who have been assigned to cover Fukuda's career in the past insist he is a strong personality with a firm grasp of and concern for international affairs, and he is known to be extremely worried about the danger of a new world war.

But at the current time, Fukuda is thought to be highly

pessimistic about the political prospects for achieving conditions for high growth rates in the world economy, and is therefore firmly aligned with the Inayama, low-growth camp.

One particularly astute observer suggested to this writer that Fukuda, Inayama, and the other low-growth advocates might be making a blunder similar to that of Japan's leaders of the 1930s. Now, just as then, danger lies with "accommodation" to a low-growth policy, since a shrinking world economic "pie" virtually guarantees global conflict.

Keidanren's recently retired chairman, Toshio Doko, is said to be firmly opposed to Inayama's "era of low growth" outlook, and had a very different intention in mind when he assumed the chairmanship of the government's administrative reform advisory council. One corporate research director familiar with Doko's view says that the powerful business leader thinks the world economy is now in a "restructuring period," in anticipation of the type of "new era of high growth" outlined in MITI's "1980s Policy Vision." Doko is said to view the administrative reform as one part of the process of laying the basis for the "new era."

Doko is said to believe (like many Japanese) that their country was almost destroyed by the two oil shocks, but through a combination of hard work and great ingenuity, Japan not only weathered the crisis, but emerged stronger. In particular, Doko believes that the private sector discovered a seemingly infinite number of means to increase productivity and quality of production as a result of the pressure placed on them in the two oil shock periods. The government sector, on the other hand, did not suffer from the same pressure, Doko says, and therefore did not streamline and make more efficient their operations. Should the government succeed in doing this, he is said to believe, it will be able to make a greater contribution to the "new era of high growth."

Thus far, the Doko-Inayama dispute, now simmering below the surface, has yet to become public. However, the much-orchestrated "unity" of the business community behind the Inayama interpretation of administrative reform has begun to show major cracks.

Japan Chamber of Commerce and Industry President Shigeo Nagano was the first to break the business community's "unity" with a call in mid-July for major government stimulation of the Japanese economy. Nagano, who told *EIR* in the interview included in this Special Report that the administrative reform is "God's test" of the Japanese people, is said by many to be breaking the business unity because his organization represents smaller business concerns which are in desperate economic recession. Sources close to Nagano say this analysis is only half true; the other factor in Nagano's thinking, they say, is his opposition to Inayama's interpretation of the administrative reform.

Moreover, support for economic stimulation, already widespread among small- and medium-sized firms, is being increasingly voiced among the larger industrial firms. Spokesmen for some of these firms are known to be privately arguing that efforts must not only be made to trim government spending, but also to increase government tax revenues

through greater economic activity. For this the large firms are said to be arguing that government stimulation policies are crucial.

The greatest weakness of the anti-Inayama groups, including Doko and public advocates of economic stimulation like Nagano, Komoto, and Abe, is their failure to thus far tween the powerful factions of former Prime Ministers Takeo Fukuda and Kakuei Tanaka. The view is widespread that Suzuki is not capable of providing the leadership, especially in foreign policy, so necessary for Japan at this time.

Struggle against Suzuki

The economic policy dispute should begin to reach a head sometime in September, when the LDP majority in the Diet (Japan's parliament) must decide whether to convene the annual special Diet session to enact a supplemental budget to finance the government's deficit. Should the Diet session be convened, it will likely be the point at which the economic policy dispute intersects the ongoing efforts of some sections of the ruling party to dump Prime Minister Suzuki.

Seasoned observers in Tokyo are describing the political situation in Japan as one of the most unusual in history. On the one hand, Suzuki is almost universally viewed as the weakest Prime Minister in Japan's post-war period—a non-leader who “balances” ideas but has virtually no ideas of his own. (Suzuki's political slogan is “harmony,” which makes him a difficult target for his opposition.) Throughout his long career, Suzuki was a little-known but powerful “fixer” in the ruling LDP, whose expertise was not in providing public leadership for the party or developing policy strategy, but rather in negotiating the deals and arrangements that are indispensable to holding together a political party like the LDP, which is in fact a coalition of contentious factions. Suzuki was placed in power in 1980 as a compromise choice for precisely these reasons, right after the death of then-Prime Minister Masayoshi Ohira, after a deadlock developed between the powerful factions of former Prime Minister Takeo Fukuda and Kakuei Tanaka. The view is widespread that Suzuki is not capable of providing the leadership, especially in foreign policy, that is so necessary for Japan at this time.

On the other hand, there is no visible candidate with a clear mandate to replace Suzuki, a situation complicated by the factional situation in the ruling party. The dominant position in the party is wielded by Tanaka, who is now on trial for allegedly accepting bribes during his tenure in office. Tanaka is at this time the principal source of support for

continued rule by Suzuki. In fact, critics say that Suzuki is little more than the tool utilized by Tanaka to maintain a tight rein over the ruling party. Unless Tanaka can be weakened politically, or otherwise convinced to shift his support to another LDP leader, unseating Suzuki at the LDP convention in November will be very difficult.

At this time, conventional wisdom in Tokyo is that Suzuki will be able to weather the upcoming storm, and will win re-election in November. However, a minority of highly experienced Japanese political observers has reached the conclusion that unhappiness with Suzuki throughout the ruling party, business circles, and the general population has reached such an extent that his opponents will find some means to unseat him. Suzuki's commitment to the administrative reform is already being questioned by powerful business leaders such as Toshio Doko, who fear Suzuki's campaign for administrative reform is more political than substantial. Should Doko or other business leaders strongly denounce Suzuki, it would severely harm his re-election effort.

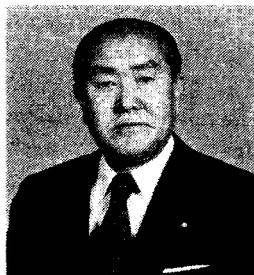
Eyes on Miki and Fukuda

The other factor being watched closely by those who think Suzuki will fall are the activities of three LDP leaders: Toshio Komoto, Minister of Economic Planning who heads the smallest of the LDP's five major factions; former Prime Minister Takeo Miki, who has lost much of his factional strength but maintains much moral authority in the party; and former Prime Minister Takeo Fukuda, who is known to harbor ambitions to return to office. Each of these leaders has a separate strategy for unseating Suzuki; but they have yet to come together in a fashion that could dump Suzuki.

Miki is the leader that has thus far launched the most direct attack on Suzuki. About one month ago, Miki took the unusual step of authoring an article for the magazine *Bungei Shunju*, denouncing former Prime Minister Tanaka for utilizing “money politics” to dominate the affairs of the ruling LDP. Miki has for many years cultivated a “Mr. Clean” image, and is known to harbor a deep hatred of the Chicago-style patronage machine that Tanaka has built up over the years of his career. Following the appearance of the *Bungei Shunju* article, Miki gave a press conference in Tokyo, at which he again denounced the “money politics” dominating the LDP. Though he refrained from mentioning names at that time, in Japan there was no mistaking the fact that Miki was aiming his attack at Suzuki.

While Miki was making noise in Tokyo, people who

Liberal Democratic Party Leaders



Zenko Suzuki



Kakuei Tanaka

know Fukuda began in July to wonder why the ambitious former Prime Minister is being so quiet about his thoughts and plans. The general view is that Fukuda is at this time formulating his strategy for attack against Suzuki, and will launch his campaign in earnest some time in mid-September. Fukuda has two options in approaching Suzuki and the upcoming LDP convention. On the one hand, he can use his power and influence—he had helped put Suzuki in power—to demand that Suzuki return to the “balanced” position that characterized his early period in office. This option is said to be appealing to Fukuda because as a politician he is primarily interested in maintaining his own position of influence in public affairs.

Fukuda’s second option is to lead an open move to dump Suzuki, and to try to arrange for the party to choose him once again as its president. This would guarantee his election in the Diet as Prime Minister by virtue of the LDP’s majority position in that body. It is this second option that Fukuda is believed to be exploring at this time.

While details are not known at this time, one factor working in Fukuda’s favor is the help he is getting from former Prime Minister Nobusuke Kishi. Though he is over 80 and no longer a member of the Diet, Kishi is still one of the most powerful figures in the ruling LDP. Kishi has been meeting quite regularly with Tanaka during the recent period, and is widely thought to be pressuring Tanaka to withdraw support from Suzuki. Kishi is thought to have many different motivations for taking this action, and making Fukuda Prime Minister again is not necessarily at the top of the list. However, not only is Fukuda one of Kishi’s top protégés, but Kishi’s son-in-law, Minister of International Trade and Industry Shintaro Abe, is the top lieutenant in the Fukuda faction. Kishi is known to be hopeful that his son-in-law Abe can one day become Prime Minister, and he believes strengthening the Fukuda faction within the ruling party will assist that prospect.

Miki and Fukuda, while currently pursuing different approaches to dumping Suzuki, have collaborated in the past in such situations, and many believe that their strategies will eventually meet, sometime in autumn.

The Komoto factor

Sources close to Economic Planning Agency director Komoto believe he has made a firm decision to challenge Suzuki for the Prime Ministry. This challenge would complicate an already complicated situation, since Komoto would

pursue a strategy quite distinct from Miki and Fukuda, and it is by no means clear if or how these differing strategies to dump Suzuki would be resolved in favor of one choice.

Like Fukuda, Komoto is also believed at this time to have two leading options for the immediate future, but both of his top options represent direct challenges to Suzuki. Unlike Fukuda, there is little motivation for Komoto to try to bargain with Suzuki for influence.

The first and less likely of Komoto’s options is to try to force the holding of a primary election prior to the LDP convention, in which the several million registered members of the LDP from around the country would vote from a list of at least four candidates. Komoto, who is a very wealthy man, has one of the strongest grass-roots bases of support of all Japanese politicians, and it is believed that many of the LDP national members are loyal to him. Therefore, he would probably do very well in a primary election, laying the basis for him to make a strong challenge to Suzuki at the run-off election, which would be held, as per party election law, at the November convention.

The problem in this Komoto strategy is that the LDP law says that four candidates must be entered in a primary race, and that each candidate must be nominated by gathering the signatures of at least 50 members of the Diet. Whereas the largest three factions in the LDP, the Tanaka, Fukuda, and Suzuki factions easily have the required 50 supporters, Komoto’s faction has only 40 Diet members, and Komoto would therefore require the support of another, smaller LDP faction just to force the primary to be held. While such support from a smaller faction is theoretically possible (the faction of Science and Technology Minister Ichiro Nakagawa is often cited as one possibility), such support is not guaranteed for Komoto.

Komoto’s second option, and the one he is believed to be most actively pursuing, is to try to make an arrangement with Tanaka. One offer Komoto is known to have made is to support the candidacy of Tanaka’s son-in-law for a position in the Diet. Former Prime Minister Miki is said to be extremely angry at Komoto for entering such discussions with Tanaka. Komoto now heads the faction in the party formerly led by Miki.

One additional option Komoto is said to be considering is postponement of the LDP convention until early next year, arguing (like Suzuki) that the special Diet session must be free of political turmoil. This effort, which Komoto has discussed with MITI Minister Abe, if successful, would be a severe blow to Suzuki.



Takeo Fukuda



Takeo Miki



Toshio Komoto