

# Prelude to Reform?

By Susumu Takahashi

There were a number of incidents in Japan in August and September that, while not registering magnitude 10 on the Richter scale, still count as 5s or 6s. Moreover, these have come in a swarm, starting with the House of Councillors election in late July and continuing through the economic rescue package in late August and then to the Sagawa scandal that shook Japanese politics in late August (the Sagawa scandal being especially significant in that it involved Shin Kanemaru, arguably Japan's most influential politician) and the decision by Russian President Boris Yeltsin to cancel his visit to Japan in September.

There has clearly been a lot of seismic activity worth commenting on. I would like to leave the Sagawa scandal to next time, since it is still being played out within the Takeshita faction and it is difficult to judge the impact this will have on the whole issue of political reform.

## Upper house election

When the votes were counted for the July 26 House of Councillors election, it was found that only about 50.7% of the people had bothered to vote. Voter apathy is also a problem in the United States and Europe, but the difference is that there has been almost no discussion in Japan of what causes this rising tide of apathy and how to counter it.

Among the notable analyses of the election results is Michitoshi Takabatake's "The LDP Won Because the SDPJ Lost" in the August 11 *Ekonomisuto*. In this, Takabatake says that the most remarkable thing about this election was how constant the results were. In three of the four upper house elections since 1983 (with the one exception of 1989), the Liberal Democratic Party (LDP) has won between 68 and 72 seats. With the election system seeming to almost ensure that the LDP will get its usual allotment of seats, it should be no surprise that the electorate shows less

and less interest in ratifying these predetermined results, says Takabatake.

In terms of the number of votes received in each prefecture, the LDP showed the same basic strength this year as it did in 1989. In contrast, the Social Democratic Party of Japan (SDPJ) did much worse this year than it did three years ago. In fact, it did about the same as it had done in 1983 and 1986, and this may thus be considered the SDPJ's basic organizational strength.

Given this analysis, Takabatake is sharply critical of the SDPJ. There were reports before the election that the SDPJ was doing well, but this was, he says, "well only in the sense that the party was comfortable in permanent opposition and did not expect to do any better than usual."

If the SDPJ wants to break out of its luxury No. 2 spot and create a base of electoral strength that could hope to rival the LDP's, it will have to forget about allying with the Democratic Socialists—which history has already showed to be a dead end—and do something to get more voters out to the polls and voting for the SDPJ. The SDPJ won in 1989 not because there was a shift of independent voters to the SDPJ column but because the SDPJ

managed to provide a common focus mobilizing a wide range of political forces outside the mainstream. This is the lesson to be learned if it ever wants to win again.

## Reassessing Russia policy

The LDP's victory in the July upper house election strengthened Prime Minister Miyazawa's legitimacy and provided a much-needed springboard for future initiatives. Following this, the administration was looking forward to President Yeltsin's visit to Japan as a chance to establish the framework for a resolution of the territorial issue and to use this foreign policy success to further buttress its political standing at home. These hopes were dashed when Yeltsin abruptly canceled his visit.

Expecting Yeltsin to visit Japan, most of the major magazines had long stories on the territorial issue over four islands seized from Japan by the Soviet Union at the end of World War II. In general, they were divided between those that were even more hawkish than the administration in arguing that resolving this territorial issue is a prerequisite to any



A scene on Etorofu, one of four islands that Japan is asking Russia to return.

Photo: Kyodo News Service



real improvement in Japan-Russia relations and those that argued that the political situation in Russia demanded flexibility and were critical of administrative rigidity.

Tsuyoshi Hasegawa (in "Japan a Victim of Territoryitis" in the September *Chuo Koron*) went one step further in saying that there are more important considerations at stake than the islands, referred to in Japan as the Northern Territories. Sweeping in scope, Hasegawa's paper is an insightful analysis of Japan-Soviet and Japan-Russia relations and their implications. Even though the distance between the two countries has been steadily narrowed since the start of *perestroika*, Japan and Russia have been unable to reach an agreement. Why?

The reasons, he says, are to be found not only on the Russian side but also on the Japanese side, and it is imperative that we be able to discuss these Japanese reasons—primary among them the fact that Japan has fallen prey to obsessive "territoryitis" and is unable to discuss the territorial question rationally.

From this, he concludes that it is essential that Japan overcome this obsession and develop a Russia policy that is responsive to the broader changes in the world situation—that has a clear idea of what kind of a role we want Russia to play in what kind of an international order and that encourages Russia to move in this direction. As such, Hasegawa argues that Japan should be paying less attention to the territorial issue and more attention to the indispensability of Russian political and economic stability for global (including Japanese) stability and prosperity.

This is also echoed by Haruki Wada who, even as he argues that Japan should shift its priorities from insisting on the return of all four islands, including a group of islets, and should instead press just for the return of two of them, Shikotan and the Habomai islets, and whatever else can be gotten, emphasizes in "Concern over the Negotiations for the Northern Territories" (in the September *Sekai*) that it is far more important for Japan and the rest of humanity that Japan and Russia build a viable partnership than it is that Japan get these islands back.

As these two articles point out, Japan needs to be able to view relations with Russia in the broader historical and global perspective. And from that perspective, it should be clear that the territorial issue is, as Hasegawa puts it, "another manifestation of the nationalism and territorialism that have plagued humankind throughout history." One hopes that the Japanese foreign policy establishment will be able to do better than this.

## Japan in recession

With the Japanese economy in the doldrums, the government announced a massive economic pump-priming package in late August. According to Masaru Yoshitomi, who was closely involved in drafting the package, the current recession is characterized by (i) the fact that labor market, goods and services market, and capital market are adjusting and re-treating at different speeds, (ii) the major need for adjustments in the stock of goods in the real economy, and (iii) the sluggishness in capital markets as the banks are caught in a capital crunch.

As a result, he writes in "The Philosophical Background to the Government's Economic Package" (in the October *Chuo Koron*), the package, while heeding the need for stock adjustments and the tightness in the labor market, is based first on a Keynesian policy approach to stimulate final demand and second on measures that go beyond the normal fiscal policies in seeking, for example, to impart greater liquidity to real estate collateral.

Author of the best-selling *Compound Recession*, Yoshikazu Miyazaki has written in "Curing the Compound Recession" (in the September 29 *Ekonomisuto*) that the current recession has been caused by a convergence of stock problems in land and securities and flow problems in inventory adjustments, and that it is different from anything we have seen before. As a result, there is considerable doubt about whether this recession was really caused by excess capacity as a result of overproduction and low capital costs and whether it can be cured by an upturn in effective demand. In short, he is



Foreign Minister Michio Watanabe meets with President Boris Yeltsin in Moscow last September in preparation for his visit to Japan. The visit was later canceled abruptly.

arguing that the recession is not the government's fault but business's.

Looking at specific issues, Yukio Noguchi ("Market Principles Wanted in Bad-debt Land Buy-out" in the September 15 *Ekonomisuto*) says that the Japanese economy is basically sound but that the financial sector has serious problems. In particular, he argues, the collapse of the stock market has also collapsed the worth of bad-debt reserves and had a grave impact on the entire credit structure.

On the non-performing assets that have caused this financial crisis, he concedes that the economic relief package's proposal for a new company to buy the banks' bad-debt real estate collateral is probably a good idea but says it is crucial that these assets be bought as cheaply as possible consistent with market realities and that the decision-making process be open to the public to ensure that the mechanism actually works in the way it is intended. This is, he maintains, an excellent chance for government entities to buy land and to turn it to public use, and it is crucial that this opportunity be taken for long-term social infrastructure enhancement.

Each of the commentators has his own analysis of what went wrong with the Japanese economy and how to cure the recession that remains now that the speculative bubble has burst, but they are all agreed in pointing out that our present troubles were caused largely by an abdication of morality in the financial sector and are all scathingly critical of the companies that abandoned sound business practices in their blind pursuit of profit for profit's sake.

*Susumu Takahashi is professor of political science at the Faculty of Law, the University of Tokyo.*