

Accelerating Reform

By Takahashi Susumu

These have been months of great turmoil for Japan. In domestic politics, the political reform bills passed the House of Representatives but became stalled in the House of Councilors and the issue of whether or not to extend the Diet session was raised. At the same time, there was talk that the Social Democratic Party may bolt the coalition over the GATT Uruguay Round accommodation on rice. These are times that will test the Hosokawa government.

On political reform, and particularly on the focal point of electoral reform, media discussion has already shifted to speculation about the inevitable realignments. Yet I suspect we need to rethink the ramifications of the proposed system of proportional-plus-direct representation. While this system's adoption will probably enhance the tendency for

Japanese politics to be dominated by two major parties, we could very well have vigorous third and even fourth parties if the politicians take fullest advantage of election alliances, local factors, proportional representation, and other possibilities. It is an over-simplification to assume that proportional-plus-direct representation will inevitably mean a two-party system.

This then raises the third-party question. Kan Naoto argues (in "For a Japanese Democratic Party" in the December *Sekai*) that it should be possible to form a Japanese party akin to the U.S. Democratic Party and its liberal principles by bringing together the Japan New Party, Harbinger Party, and those elements of the Social Democratic Party that support the coalition plus some breakaways from the Liberal

Democratic Party (LDP). At the same time, he suggests that a Republican Party could be created with the Renewal Party and Komeito, plus breakaways from the LDP and other sympathetic politicians. If this happens, he says, Japan would have a three-party system with Democrats, Republicans, and the remains of the LDP vying for power.

Kan is far from the only person to use the term "liberal," yet it is not at all clear what this term implies. While this ambiguity makes it easy to belittle people who use the term, "liberal" has become a rallying force for many of the people who are dissatisfied with politics as usual and who want to assert their own self-identities in creative opposition to the other political forces. "Conservatism" and "social democracy" are also starting to be used as cate-



Can the unstable political situation be surmounted and relief from the slump be found?

gorical definers, and it is hoped that the media discussion will facilitate realistic policy debate within this framework.

It is imperative that the media be fully aware of the realities yet constantly pressing for change. This is a difficult tension to maintain with inevitable personal involvement in the factional infighting that takes place, however, and the media thus spent considerable time on the relationship between television and politics—a discussion that was triggered by comments former Television Asahi News Division General Manager Tsubaki Sadayoshi made about how the news might shape the election. The main points that emerged were that Japan is lacking in empirical studies of television's impact on politics; that television reporting is not as institutionalized as print media; that the media is divided by competitive pressures and unable to take a clear-cut stand against political interference, as shown by the fact that there was no united protest against the subpoenaing of Tsubaki before the Diet; and that the Broadcast Law needs to be reexamined, including the question of having the Ministry of Posts and Telecommunications in a position to monitor programming for fairness and impartiality.

Foreign policy concerns

On the foreign policy scene, the November APEC summit meeting held in Seattle was a major subject that is sure to be intensively analyzed and discussed in Japan. How the U.S. media depict Japan-China relations is an important factor in the APEC context, and there have been a number of American articles this year about how Japan and China are supposedly competing for Asian hegemony. Perhaps the most lurid was in the November 17 *Newsweek* (Japanese edition) article "Japan vs. China: Whose Pacific Ocean?" This article played up the rivalry between Japan and China and said that the U.S. had to maintain a balancing presence in the region. It was a surprisingly superficial story that could have benefited from a look at the opposing trends in Japan, China, and throughout Southeast Asia.

As Funabashi Youichi noted in his "Asia in Search of Asia" in the December *Chuo Koron*, an Asian worldview is gradually coalescing to bring the Asian countries together. If the U.S. wants to be part of the new order in the Asian-Pacific region, it is going to have to do more than just be a geopolitical balancer. Unfortunately, America has yet to delineate a clear picture of what it wants to accomplish in Asia or how.

With the deepening depression in Japan, political reform and foreign policy are starting to be eclipsed by the increasing attention being paid to possible prescriptions for recovery. The first article of note is "Seven Miracle Cures to Break the Vicious Circle" by Sakaya Taichi and a group of economists and business leaders in the November *Bungei Shunju*. At the heart of their recommendations is the elimination of the bubble's morning-after syndrome and jump-starting consumption. On consumption, for example, they propose a ¥10 trillion tax cut (income taxes and residency taxes) starting with FY1994 and hiking the consumption tax (from its current 3%) to 10% by the end of FY1994. If this is done, they say, people with incomes of ¥10 million or less would pay virtually no income tax. Although consumption taxes would go up across-the-board, they call for offsetting the impact on households on family-support assistance by increasing welfare outlays 10%.

Yet there is also skepticism about how much impact a tax cut can have, including a large body of opinion that thinks people already have about all the material goods they are going to buy. Taking part in a panel discussion on "Recovery with New Infrastructure Investment" in the November *This Is Yomiuri*, Amaya Naohiro argues persuasively that the real need today is to enhance such non-market public goods as the infrastructure, educational and medical services, land availability, and the environment. To do this, he adds, we need to discuss what kinds of systems are necessary for providing these public goods and what kind of a role the government should play. It is all well

and fine to talk about deregulation and the attractions of small government, he says, but there are some areas where the government has to take an active part to everyone's advantage.

Deregulation

In the November *Gekkan Asahi*, Noguchi Yukio's article entitled "The Whole Point of Japanese Systemic Reform is to Destroy its 1940 Structures" points out that the Japanese economy faces serious structural problems and needs to tear down the old structures cobbled together in 1940 and create new systems suited to its current circumstances. As Noguchi tells it, today's structures—characterized by employee-centered companies that emphasize job stability, by the failure to rationalize in agriculture, distribution, services, and other low-productivity sectors, and by the spending tilt to outlying areas—were shaped in the late 1930s and early 1940s when Japan was mobilizing for war. Yet these structures are basically anti-competitive and constitute a grandiose social welfare system that emphasized internal harmony and does not let anyone fall through the net. It is time to effect a radical change and switch to competition-based systems, which will have to mean deregulation in such sheltered areas as food control, renter rights, and financial conformity.

Accelerating this discussion, the Tax Commission submitted its recommendations in late November. While there is bound to be heavy debate over tax reform, the November 2 *Ekonomisuto* has an article entitled "Cutting Income Taxes and Raising Consumption Taxes will Distort the Tax System" by Miyajima Hiroshi, a scholar specializing in fiscal policy studies. While granting the need to ease the sharply progressive tax code, he says Japanese employees still pay less in income taxes than their counterparts worldwide and do not need an income tax cut. At the same time, he points out that the consumption tax is distortive in being applied across-the-board.

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