

Obuchi "Economic Reconstruction" Cabinet off to a Rocky Start—Amid Harsh Reaction from the Markets

By Sakamoto Sakae

Following the defeat of the Liberal Democratic Party (LDP) in the July 1998 House of Councillors election and the resignation of Prime Minister Hashimoto Ryutaro, the new Cabinet, led by Obuchi Keizo, has got off to a rocky start.

One landmark event that characterizes the new Cabinet is perhaps the appointment of former Prime Minister Miyazawa Kiichi as finance minister. Not confident of resolving economic problems (overcoming the recession while in a deflationary spiral) and financial problems (pulling financial institutions out of the financial crisis), Obuchi considered "Finance Minister Miyazawa" to be indispensable for his "Economic Reconstruction" Cabinet and courteously invited Miyazawa to accept the finance portfolio.

But initial reactions to the Obuchi Cabinet, both domestic and overseas, were not necessarily favorable. In August following its inauguration, the yen momentarily slid to the 147 level against the dollar. This is perhaps because the exchange markets were apprehensive about the ability of the Obuchi government. Despite the fact that the U.S. political and economic climate, including President Bill Clinton's "inappropriate relationship" scandal, were apparently against the dollar, the yen came under a heavy selloff attack.



Finance Minister Miyazawa (left) advises Prime Minister Obuchi (right) during the meeting of the budget committee

The stock market, a leading indicator of the economy, is reacting bitterly to the new administration. The Tokyo Stock Exchange Nikkei average index plunged below the 14,000 mark in late August, hitting a new low following the bursting of the bubble economy. Overseas investors seem to believe that Japanese stocks will tumble further.

Finance Minister Plus Bank of Japan Governor = 151

The biggest problem Miyazawa faces is perhaps his age. As a financial pundit puts it, the combined ages of Finance Minister Miyazawa and Hayami Masaru, governor of the Bank

of Japan (BOJ), total 151. In no other G-7 (seven industrialized) nation, does the total age of the finance minister and central bank governor top 151. The average total of their ages is, at most, 75 percent of it, if not half (75), the pundit says.

The age and comprehension ability, decision-making capability and ability to act of a man are not in inverse proportion. But it is common knowledge that the duties of the finance minister and BOJ governor are the toughest of all the posts in the government and public organs. More often than not, they have to work all night. What counts in the end is physical strength, some businesspeople

think.

The combination of a 78-year-old (Miyazawa) and a 73-year-old (Hayami) is obviously a far cry from the "global standard" for the total age of a finance minister and central bank governor. There seems to be little ground to refute the contention that Miyazawa and Hayami are too old to fight the world markets where young dealers with full physical strength and intellectual power are the norm.

Finance Minister's Obstinacy

From another point of view, a Ministry of Finance (MOF) source questions Miyazawa's ability. "The problem is that he is so stubborn because he knows the economy," the source says. In the course of policy discussions with the MOF during his previous tenure at the ministry, Miyazawa often ignored policy options prepared by MOF officials and stuck to his own views, recalls the source.

When they discussed whether to control stock futures, MOF officials opined that controls on stock futures in Japan will be of little effect because they are listed on the Singapore market as well. But Miyazawa held fast to his view that stock futures deals be controlled. This policy was eventually translated into action based on the finance minister's judgment, but it accelerated the hollowing-out of the Japanese stock futures market.

It is said that the workings of derivatives, which are much more complicated than the mechanism of futures transactions, can be comprehended by people up to the age of 35. No finance minister can do his job in the late 20th century without knowing about derivatives, which are the biggest factor responsible for international fund flows and market price formation. How to make the best use of MOF bureaucrats is one of the tasks for the new finance minister.

Hashimoto Government Stumbles on Economic Policy

The LDP defeat in the House of Councillors election has been analyzed

in many ways. One group of critics say that the policy the Hashimoto administration thrashed out to cope with the worsening recession was "too little and too late." In military jargon, the comment boils down to wasting of resources through "piecemeal deployment of troops" and "misjudgment of chances to win." Introduced below as reference for the new Obuchi government is an analysis of the LDP's election setback by an influential business leader.

The business leader points out that the Hashimoto government was "too late" to hammer out economic measures. In other words, he says, Hashimoto's "time axis" was out of order. When a war situation is uncertain, even a small force can turn it around in a favorable direction, if properly used, but, when the situation is heading for defeat, even a big force cannot change the tide of war.

To liken it to market intervention by currency authorities, even small sums of funds can effectively intervene in the market while dealers and other market participants are psychologically agitated. But when the market view is tilted in one direction, whether the yen is depreciating or appreciating, it is unlikely the direction can be changed even if huge sums are spent on intervention.

Vacillation over Tax Cut Issue

The second cause of the LDP's defeat is that the ruling party was unable to wipe out anxiety about the future of the country although it made many promises in the election. Meeting the press during his stumping tour, Hashimoto unequivocally vowed to carry out a permanent income tax cut, but he soon denied his remarks in a TV news program. However when the market reacted vehemently to this denial, he hurriedly called a news conference and again promised permanent cuts. This dithering, no doubt, amplified the people's anxiety and turned out to be the biggest direct cause of the LDP's defeat.

The business leader also points to the clumsy manner of policy

presentation by the former prime minister. "A leader should clearly explain policy images. Of course, the contents of policies are important, but they can hardly be understood by ordinary people if the information is not transmitted properly," he says.

He perhaps means that publicity is important to politics as it is to companies. In military tactical or strategic terms, officers and soldiers march forward without doubt if the commander details them on the overall war situation and pinpoints a target of attack. The explanation, if vague, will produce unrest and make them run about in confusion.

Information for Decision Making

Tracing the first and second causes, it becomes obvious that the information Hashimoto had was inadequate or wrong, leading to his misjudgment. How can the commander decide how big a force to deploy if the information upon which he is to base his decision is erroneous? How can he deliver an address to lift the morale of his forces?

The business leader goes on to say, "In running a company, it is important to perceive the gap between its desirable figure and the realities it faces. To know the realities, the top executive must see the field of production with his own eyes." This is also true with the political world. New Prime Minister Obuchi set up an "economic strategy council," composed of businessmen and scholars. At the same time, he needs to visit many important locations in person to listen to the views of business leaders.

JJI

Sakamoto Sakae is an economic news editor at the Jiji Press news agency. He specializes in such fields as finance and international economic affairs.