

## ¥82.65 Trillion Budget for 2001

The Japanese government has approved a ¥82.65 trillion general account budget for fiscal 2001 (April 1, 2001 to March 31, 2002) aimed at ensuring the nation's recovery from the prolonged economic slump. The budget is 2.7% smaller than the initial budget for the previous fiscal year.

Compilation of the fiscal 2001 budget was watched closely for clues as to whether the government can attain economic recovery, put the brakes on the expanding fiscal deficit, get an efficient government moving after the latest ministerial reorganization, make the economy less dependent on public works and set the pace for structural reform. As it turned out, the government took only half-measures as if it had run out of options.

Recent public opinion polls show that people's uneasiness about their future, including the availability of pensions, is behind the current slump in consumption. At stake is the political leadership's role in shaping the nation's medium and long-term economic policy, including a review of the single-annual-budget principle.

General expenditures, which cover outlays for discretionary policy measures, total a record ¥48.659 trillion, up 1.2% from the initial budget for fiscal 2000, with a record ¥600 billion allocated for spending related to information technology (IT) – the main focus of Prime Minister Mori Yoshiro's national revitalization plan.

The fiscal 2001 budget incorporates ¥28.318 trillion in new government bond issues, including ¥19.558 trillion in deficit-financing bonds. The amount of new bond issues is down 13.2% from fiscal 2000 but still accounts for more than one-third of the general account and more than half of general expenditures, showing that the government has failed to reduce fiscal deficits.

The new budget is the first to be implemented since the January reorganization of the central government structure. But efficient allocation of expenditures is limited.

The Mori Cabinet will continue to put economic recovery before concrete fiscal reconsolidation. But recovery

remains slow and uncertainty prevails as shown by weak stock prices.

As it has few additional economic trump cards up its sleeves, the government is being forced to follow a stern double-edged policy line – turning around the economy on one hand and putting its financial house in order on the other.

The general expenditures give priority to the implementation of Prime Minister's "Rebirth of Japan" which focuses on four areas – IT, response to the growing elderly population, urban renewal and the environment. Public works projects related to the four areas were allocated ¥3.6 trillion, up 8% from fiscal 2000 focusing on strategic areas which will carry weight in the future. IT-related public or non-public projects received ¥600 billion, up a whopping 40%.

Despite the lingering financial crisis, spending on public works totals ¥9.435 trillion, unchanged from last year's initial budget, with ¥300 billion set aside for a controversial reserve fund for unspecified public works projects. This allocation was devised as a transitional step to add another "final push" to the economy, which has yet to be put on a self-sustaining growth track, though most economists agree that the effect of public works in underpinning the economy is limited.

On the back of recovery of corporate earnings, tax revenues were estimated at ¥50.727 trillion, up 4.2% from the estimate in the initial fiscal 2000 budget. It marks the first time in three years that taxes have been forecast to reach ¥50 trillion on an initial budget basis.

The balance of government bond issues as of the end of fiscal 2001 (March 31, 2002) is projected to expand to ¥389 trillion from ¥365 trillion as of the end of fiscal 2000.

New government bond issues dropped ¥4.3 trillion and deficit-financing bond issues fell ¥3.9 trillion. The decrease in bond issues is attributed to special factors such as a rise in tax revenues as well as the absence of expenditures for the redemption of grant bonds. The fiscal 2000 budget allocated ¥4.5 trillion for that purpose as part of measures for stabilizing the financial system.



*The second Mori cabinet includes such political heavyweights as Miyazawa Kiichi (second from the right in the front row), Hashimoto Ryutarō (second from the left in the front row) and Kono Yohei (on the right of the front row)*

## Mori Reorganizes Cabinet but Faces Uncertain Future

In November 2000, Prime Minister Mori Yoshiro's fate hung in the balance, threatened by a rebellion from inside his Liberal Democratic Party (LDP).

Kato Koichi, a reform-minded former LDP secretary general who heads a major party faction, criticized Mori's policies and expressed his intention to vote for an opposition-submitted no-confidence motion against Mori in an apparent attempt to oust his cabinet.

He described his move as "the opening of a big drama," and declared that "only those who represent the people's will can attain the goal."

Alarmed by a possible breakup of the party, LDP executives led by wily former secretary general Nonaka Hiromu spared no effort to crush the revolt with various tactics, including a threat to expel the rebels from the party and unseat them in the next election.

With his faction widely split under the pressure, Kato flinched and urged his supporters only to stay away from the parliamentary chamber for abstention, instead of voting for the opposition bid as originally planned.

Kato's cowardice, which he described as an "honorable retreat," came as a great disappointment to voters who despaired of Mori and placed high expectations on Kato to change the mood of a nation stuck in a political and economic quagmire. The drama was over, and the Japanese feel betrayed by politicians once again and their political cynicism may further deepen.

With the rebellion crushed, Mori carried out a major reshuffle of his cabinet in December in a bid to bolster his political position and cling to power despite his unpopularity.

The new cabinet, Mori's second, is characterized by the inclusion of heavyweights, such as the retention of former prime minister and LDP president Miyazawa Kiichi as Finance Minister; the appointment of Hashimoto Ryutaro, another former prime minister and LDP president, as Minister of State (administrative reform, Okinawa and Northern Territories affairs); the retention of former LDP president Kono Yohei as Foreign Minister; and the appointment of former foreign minister Komura Masahiko as Justice Minister. Hashimoto, Kono and Komura are all faction leaders and favorites to succeed Mori.

Hashimoto's inclusion, which is said to be Mori's own idea, was apparently intended to rally support from the Hashimoto faction, which seemed to be distancing itself from Mori after the defeat of the opposition-sponsored no-confidence motion. This was reflected by the fact that Nonaka declined Mori's request to stay on as secretary general and instead opted to assume an ostensibly obscure job as the caretaker of the Hashimoto faction.

According to political observers, Hashimoto initially refused to become a cabinet minister on the grounds that there is no office responsible for administrative reform which he would handle. Even when Mori promised to immediately set up such an office, Hashimoto was still reluctant to join. Only after Mori offered to add the Okinawa post did Hashimoto agree to serve in the cabinet.

Despite the appointments of Hashimoto and other heavyweights, which Mori hoped would boost his cabinet's public support rating, approval figures in various opinion polls remain low.

The biggest task for the new cabinet is to put the nation's economy back on a full recovery track. On the back of the U.S. economic slowdown, Japanese stock prices have been steadily falling. If this trend continues until the March 31 book closing, financial institutions and general contractors with latent losses could go bankrupt, belying the government contention that the economy is already on the recovery track. Coupled with the low approval rating, such a situation could be fatal for Mori. If LDP members feel they cannot win this summer's Upper House election under Mori,

they will choose to replace him by holding a party presidential election ahead of schedule.

Political observers agree that Mori still faces an uncertain future and a new crisis may develop in March.

If Mori steps down, Hashimoto will be one of the top candidates to succeed him. Koizumi Jun'ichiro, who currently serves as chairman of the Mori faction, is also mentioned as another probable successor.

In any case, Nonaka will be the king-maker. In a shakeup of party executive posts, carried out at the same time as the cabinet reshuffle, Nonaka picked Koga Makoto, one of his closest confidants, as new Secretary General to succeed him. Though he belongs to Kato's faction, Koga refused to identify himself with Kato's ill-fated rebellion and is now emerging as a key player of anti-Kato forces within the Kato faction, which is on the verge of a breakup following the failure of the anti-Mori rebellion.

Koga is reportedly moving to tie up with Kono's and Komura's factions, which means that the Nonaka-Koga alliance could control the majority of the party.

Even for the New Komeito, the junior partner of the coalition government, Nonaka is the man to be reckoned with.

## Basic IT Law Enacted

A law laying down the basic concept for promotion of the information technology (IT) revolution took effect on January 6.

Promotion of the IT revolution is at the top of Prime Minister Mori Yoshiro's policy agenda. Its rationale is that Japan must create a society in which all people can easily use the Internet and other enhanced IT networks and share the benefits of IT technologies.

The basic concept envisages, among others, 1) the building of an enhanced network infrastructure which will turn Japan into the world's most advanced country in the IT area, 2) promotion of electronic commerce through deregulation, 3) the creation of an "electronic government."

The government has created the IT Strategy Headquarters in the Cabinet, a taskforce chaired by Prime Minister Mori and made up of private-sector experts and Cabinet ministers con-

cerned, to push for the IT revolution.

Prime Minister Mori's enthusiasm for IT was reflected by the fact that at a summit meeting of major industrialized countries held in Okinawa last summer, Japan included the IT revolution and the disparity of information technology among countries, known as the "digital divide," as the theme of the discussions and expressed its determination to expedite the introduction of information technology.

The Basic IT Strategy, adopted last November in advance of the enactment of the basic IT law, set a goal to provide 10 million households with constant access to super high-speed networks and 30 million households with access to high-speed networks within five years. It also envisages the creation of an electronic government in fiscal 2003.

The IT Strategy Headquarters is expected to outline a "priority program" on the basis of the basic IT law to give details of e-Commerce rules and set target dates for the start of the electronic government.

Enhancement of content which is essential for the widespread use of information technologies, school education on IT, and the introduction of integrated circuit (IC) cards usable anywhere will be also included in the program.

The Ministry of Economy, Trade and Industry (METI), which replaced the Ministry of International Trade and Industry (MITI) in the ministerial reorganization, expects the IT revolution to boost Japan's gross domestic product (GDP) by an average of 1.5% in the next 10 years and help buoy up the economy.

Yet, there are various problems which must be addressed in shaping the future direction of the communications industry, which must lead the IT revolution. Among them are the structure of Nippon Telegraph and Telephone Corp. (NTT), connections of telephone lines, the open use of telegraph poles and other facilities owned by NTT.

The IT Strategy Headquarters faces the difficult task of putting into concrete shape the recommendation submitted last December by the Telecommunications Council (renamed the Information and Communications Council following the ministerial reorganization).