

Japan's party fissure threatens economy

by Kathy Wolfe

The special session of the Japanese Diet (parliament) which opened on Oct. 30 was gridlocked during its first week by a harsh leadership battle inside the "Takeshita faction" of the ruling Liberal Democratic Party. In-fighting in this largest of LDP factions, and related uproar over the Sagawa Kyubin trucking firm scandal, has made it impossible for Prime Minister Kiichi Miyazawa to pass his \$87 billion emergency economic package.

Miyazawa, put in power by the Takeshita faction, will fall if the Takeshita faction should formally split. This could collapse the LDP and the government. As long as the Takeshita faction is deadlocked, as it is at this writing, Miyazawa is equally helpless to organize a new power base or take any action on the economy. He could follow George Bush out of power very soon. "Japan could swing quite sharply toward paralysis," the London *Financial Times* said happily on Oct. 29.

The real issue here, unreported in the western media, however, is the substantial policy disagreement between two schools of economic thought on Japan's future. Japan's physical economy, which has been investing \$300 billion a year in new plant, equipment, and technology for a decade, is fundamentally sound. Japan's banks and stockbrokers, however, are too loaded with rotten real estate and other debt to make loans.

The battle is between bailing out the financial speculators, and shifting gears to prioritize the physical economy. The Nov. 4 *Financial Times* lead editorial, entitled "Japan Banks on Recovery," demanded that Japan implement a bailout of the rotten bank debt, modeled on the U.S. Resolution Trust Corp.'s bailout of the savings and loan institutions. Such bailouts are speculative because taxpayers' money, and inflationary government deficit bonds, go to buy the debt from the banks at too high a value.

Similarly, to bail out Japan's speculative stock market, Miyazawa has already foolishly shifted over \$10 billion of the Japanese public's savings into the Postal Life Insurance Welfare Corp. to buy stocks.

This approach is wrong. The focus must be on getting all that government cash into large-scale infrastructure and scientific seed technologies in Japan and in the Third World, to get Japan's physical economy moving again. Finance Minister Tsutomu Hata has at least spoken out against using deficit finance and bank bailouts. So far, however, no one has proposed the third and necessary solution: Large chunks

of the bad debt must be written off, and the rest stretched out, as Alexander Hamilton stretched out the U.S. Revolutionary War debt. Japan should then abrogate the Bank for International Settlements' restrictions on bank lending, and urge banks to participate in the new physical expansion programs.

LDP 'like Gorbachov'

The in-fighting within the LDP does not grid directly, one-for-one, on this more fundamental policy debate, but it has made policy impossible to clarify.

The fight "could make the LDP look like Gorbachov," top Japan-basher Chalmers Johnson of the University of San Diego told *EIR* on Oct. 27. "This could be for real. Possibly we'll have something like the Stalin-Trotsky split, or the Mao-Liu Shiaoqi split—very bloody."

A Takeshita faction split, Johnson insisted, means a split of the LDP itself. "If they create a new faction, I don't see how a full LDP party split can be avoided. It's excellent."

In fact, Tokyo is in for a lot of pressure from Washington to try to force the LDP out of power, because Professor Johnson, or one of his protégés, may be appointed U.S. ambassador to Japan by the new Clinton administration, National Public Radio reported on Nov. 4. "The end of the Cold War means that the United States no longer has any reason to keep the LDP in power. We don't need them," Johnson told *EIR*.

"If this means loss of power by the LDP or that the liberal LDPers form a coalition government with the socialists, all to the good," he said.

The Takeshita factional row began on Oct. 23 when the elders of the faction, headed until recently by Shin Kanemaru, named Keizo Obuchi, aide to former Prime Minister Noboru Takeshita, as chairman. Kanemaru resigned from the Diet in disgrace on Oct. 15, after admitting to financial relations with the Niigata trucking firm Sagawa Kybin and its godfather, gangster Susumi Ishii.

But dissenters backing Finance Minister Tsutomu Hata as a rival for chairman, led by Kanemaru's top lieutenant Ichiro Ozawa, refused to accept the choice. Parliamentary sources said that Ozawa, who until the Sagawa Kyubin scandal broke was Kanemaru's undisputed heir, might formally inaugurate another, rebel faction.

"There is no other way but a breakup," Transport Minister Keiwa Okuda told a news conference on Oct. 23. "We will work to build a new policy group around Mr. Hata." Okuda said his group would try to enlist support from other factions which could throw the LDP into war.

"This split could be a political earthquake of the first magnitude," influential Tokyo TV commentator Kenzo Uchida said on Oct. 24. "This is the period just before a divorce, when we're still living together," said a member of the Ozawa group.

"There are increasing voices that we should start all over again by calling general elections," Diet member Hiroshi Mitsuzuka told a rally in Tokyo the same day.