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## CLOSE UP ON THE NEWS

### 1. The government changes but questions remain.

#### Mr. Fukuda's resignation

Like Abe Shinzô, his predecessor, Mr. Fukuda announced his resignation on September 1<sup>st</sup>, one month after forming a new government. Twenty days later, Mr. Asô was elected to lead the LDP and appointed as Prime Minister.

But, unlike Mr. Abe's resignation, Mr. Fukuda's came as no surprise to outside observers, since his popularity ratings had hardly risen after the G8 summit meeting in Toyako, Hokkaidô, or the ministerial reshuffle which served as a litmus test. As a result, Mr. Fukuda did not seem to be capable of leading his party to victory in the elections, which are due in the coming weeks or months.

These general elections, which will lead to changes in the Lower House, will be particularly difficult. Since the elections to the Upper House in July 2007, the Diet has been divided in the sense that its two Houses are controlled by a different majority party.

In view of this difficult situation, Mr. Fukuda did not perform badly. He was chosen by his party as Mr. Abe's successor on account of his conciliatory personality. He offered the opposition leader, Mr. Ozawa, the chance to form a coalition with him, and this sowed confusion in the ranks of the Democrats. He did not abuse his right to force measures through, which is permitted by the Constitution, but he did make use of it in the case of two bills over which no compromise with the opposition seemed possible. These dealt with the renewal of the anti-terrorist legislation, and the tax laws. There were major clashes with the opposition, for example over the appointment of the governor and assistant governors of the Bank of Japan.

The ministerial reshuffle in early August did not kindle the expected enthusiasm. Mr. Fukuda replaced Ishiba Shigeru with Hayashi Yoshimasa as head of Defence, thus showing his consent to moderate reforms in that area (as opposed to radical ones). The former opponent of Mr. Koizumi's postal reforms, Noda Seiko

(who has rejoined the DLP but retains her anti-reform image), was put in charge of consumer affairs, signalling that Mr. Fukuda was taking a cautious position on the need to increase VAT rates. However, to show that he was not abandoning the path of strict budgetary restraint, he entrusted the portfolio for economic and fiscal reform to Yosano Kaoru, who supports a rise in VAT.

Despite this reshuffle, the government's popularity ratings remained largely unchanged<sup>1</sup>. The public only showed their approval for keeping Asô as general secretary of the LDP<sup>2</sup>.

#### The election of Asô Tarô

The resignation of Mr. Fukuda led to elections for which, in addition to Asô Tarô, the candidates were: Koike Yuriko (backed by the former Prime Minister, Koizumi Jun'ichirô), Yosano Kaoru, Ishihara Nobuteru (son of the mayor of Tôkyô), and Ishiba Shigeru. An opinion poll conducted by the *Yomiuri* on September 10<sup>th</sup> and 11<sup>th</sup><sup>3</sup> showed that the candidate considered best able to match Mr. Ozawa as Prime Minister was Mr. Asô.

In practically all the regions (*tô dô fu ken*), the votes of the three delegates followed the absolute majority rule, *i.e.* they voted for the candidate who won the majority of the votes in their constituency's party primaries<sup>4</sup>. Mr. Asô won the majority in both categories of votes, regional and national. Out of the total 387 votes by LDP national representatives, 211 voted for Mr. Asô - 48 out of the 88 members of the Machimura faction, 22 from the Tsûshima faction, and 33 from the Koga faction (the latter two comprise 69 and 62 members

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<sup>1</sup> According to *Asahi* ("Naikaku shiji yokobai 24%", August 3rd 2008), it remained the same, at 24%, and according to *Yomiuri* ("Naikaku shintaisei ni kitaikan", August 3rd 2008), 47% of the population did not support the new government.

<sup>2</sup> An approval rating of 51% according to *Asahi*, and 66.3% according to *Yomiuri*.

<sup>3</sup> "Shushô ni fusawashii nowa dochira?", *Yomiuri*, September 12th 2008.

<sup>4</sup> "Shijizôyô naru ishiba, koike shi, kanbu kurasu ni nyûha, yosano shi", *Yomiuri*, 5, September 2008.

respectively). These three factions are the three largest in the LDP. Mr. Asô's group is a smaller one<sup>5</sup>.

Yosano Kaoru and Ishiba Shigeru both hold portfolios in the Asô government - as he had promised his opponents at the beginning of his campaign. The omission of Mrs. Koike was perhaps because she was backed by a section of the Machimura faction. The latter faction is made up of the sub-faction set up by the former Prime Minister Mori Yoshirô, who backed Mr. Asô, and the one set up by the former general secretary, Nakagawa Hidenao. This group backed Mrs. Koike, as did Koizumi Jun'ichirô and the former general secretary, Takebe Tsutomu.

One section of the Tsûshima faction voted for Mr. Ishiba, one section of the Koga faction for Mr. Yosano, and one section of the Yamazaki Taku faction for Ishihara Nobeteru.

Mr. Asô is well known for his duplicitous statements. His latest slippery utterance, causing outrage in the West, was on August 4<sup>th</sup> when he harangued the Democrats in the Diet as follows, "*Are the Democrats perhaps intending to take power? The Nazis too, at one time, asked to be given power, if only on one occasion...*"<sup>6</sup>. His approach to history causes offence in Japan too, and in Asia (including Australia), since the mining group run by his family made use of prisoners of war during World War II, and Mr. Asô, who was linked to the management of the group for a time, has never made any statements on this issue.

Since his recent campaign, however, he has been careful about what he says. So the same man who in December 2005 stated that a country with a billion inhabitants in possession of nuclear weapons, whose defence budgets were rising annually by more than 10%, was finally becoming a real threat, on September 12<sup>th</sup> this year affirmed to the Japanese press club in Tôkyô that China's

growth should be welcomed, and was no cause for alarm<sup>7</sup>.

#### Inside the Minshutô

For his part, Ozawa Ichirô was re-elected as leader of the Minshutô, following an election in which he was the sole candidate. The possibility of putting up some rival candidates against him was considered. Okada Katsuya was felt to be a possibility but, in the event, Mr. Okada preferred not to stand. Although he is not very popular, Mr. Ozawa carries a political weight which makes him a stronger leader to confront the LDP in any future elections.

It was Maehara Seiji in particular, the former party chairman whose group has about thirty members, who called for an election with several candidates, without intending to stand himself.

The most important group in the Minshutô is Mr. Ozawa's faction, which has about fifty members (under the control of Yamaoka Kenji). He was also backed by all of the following groups: the supporters of Kan Naoto (centre right), of Hatoyama Yûkio (right), of Koshiishi Azuma (former socialist party), and of Naoshima Masayuki (former social democratic party).

#### Electoral prospects

Before Mr. Fukuda's resignation, many LDP members wished to wait for the end of the legislative term of office, due in September 2009, before the dissolution of the Lower House, in order to prolong as much as possible the advantages of the large majority which they had won in the 2005 elections<sup>8</sup>. Others preferred to wait for a rebound in the Prime Minister's popularity ratings<sup>9</sup>. When he took up office, Mr. Asô enjoyed over 50% support, so the LDP planned to call the general elections as early as October 26th. The Kômeitô, which is an ally of the Democratic Party, is in favour of holding

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<sup>7</sup> "Asô shi, ima wa gaman", *Yomiuri*, September 13th 2008.

<sup>8</sup> The electoral officer of the LDP, Koga Makoto, made a statement to this effect ("Asôshi 'kaisan hatsugen hikaete'", *Yomiuri*, August 6th 2008.

<sup>9</sup> Sasakawa Takashi, chairman of the LDP's general affairs, *ibid*.

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<sup>5</sup> Figures according to the forecast in *Yomiuri*, September 15th 2008.

<sup>6</sup> "Nachisu ni tatee minshu kensei", *Yomiuri*, August 5th 2008.

the elections before the end of the year, so as not to have to conduct two electoral campaigns in 2009, for both the general elections and the Tōkyō city council elections. Nevertheless, it was not too happy to be obliged to mount a campaign at such short notice<sup>10</sup>.

The electoral timetable is still not fixed. Having decided to dissolve the assembly on October 26<sup>th</sup>, and launch the campaign on November 18<sup>th</sup> for elections to be held on the 30<sup>th</sup>,<sup>11</sup> the LDP and the Prime Minister are again thinking of either putting them off until next Spring, after the vote on the 2009 budget, or else of not calling any early elections and waiting for the end of the parliamentary session in September.

When they were asked about the kind of government they wished to see in place after the elections, 33% of poll respondents expressed the desire for a coalition between the Jimintō and the Minshutō. The proportion that preferred to see a continuation of the current Jimintō-Kōmeitō coalition was smaller<sup>12</sup>.

Perhaps more than is normally the case, the next elections will be focused on the parties' economic programmes. If the Minshutō wins, the division in the Diet will disappear, and Japan will undergo a shift whose prospects will be more auspicious than the short-lived swing under the Hosokawa and Hata governments (August 1993-June 1994). If the LDP wins, it will attempt to eliminate the slim majority enjoyed by the Minshutō in the Upper House; at the end of August, five of its allies defected and announced that they would vote henceforth with the LDP (these were members of Watanabe Hideo's New Reform club which opposes the implementation of Mr. Koizumi's postal reforms).<sup>13</sup>

In the Upper House 122 votes are needed for a majority. The Minshutō held 120 of these, together with three small parties:

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<sup>10</sup> "Kaisan itsu fumikiru", *Asahi*, September 25th 2008.

<sup>11</sup> "Hanashiai no kaisan no yōsō", *Yomiuri*, October 9th 2008; "Shushō tsukimatsu kaisan shiya", *Yomiuri*, October 15th 2008.

<sup>12</sup> "Chihō mo 'Asō shiji'", *Yomiuri*, September 15th 2008.

<sup>13</sup> "Ozawa minshu kessoku ni hamon", *Yomiuri*, August 29th 2008.

Koshiishi Azuma's New Breath (*Shinryokufūka*), the New People's Party (Tanaka Yasuo), and the New Japan Party (Kamei Shizuka and Watanuki Tamisuke, who are likewise opposed to the postal reforms).

The Minshutō can also count on *ad hoc* support from the 7 communists, the 5 socialists, and the 5 independents, but it is not impossible that the LDP may be considering a modification of the postal reforms in order to win a few votes. Nor can the possibility be ruled out of a scenario similar to the one seen in Japan in the early 1990s, whereby there would be a rearrangement of the political scene around two new parties (perhaps to be created by Sonoda Hiroyuki and Yosano Kaoru, or by Nakagawa Hidenao and Koike Yuriko)<sup>14</sup>.

## 2. The Japanese markets feel the effects of the financial crisis

*A contribution by Claire Largent\*, an expert in Japanese financial policy*

While urgent measures are being taken throughout the world to rescue banks facing difficulties, the Japanese financial system is standing firm. The exposure of Japan's financial institutions to the risky mortgage market is relatively limited, which allows them to adjust their losses on sub-prime lending against their normal profit margins.

This cautious approach to market operations which have been seen until now as innovative and lucrative, can be explained as a result of Japan's bitter experience during the "lost decade" and the improved risk management strategies which ensued. Today Japan enjoys the benefits of the safety nets which were put in place during that period in order to maintain confidence in the financial system. Savers enjoy a guarantee on all deposits up to a value of 70,000 euros; the *Deposit Insurance Corporation* (DIC, *Yokin hokenkikō*), which is the fund guaranteeing these deposits, is allowed to take rescue measures such as granting monetary aid to the institution in trouble, redeeming

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<sup>14</sup> "Hakana wo fukaku shita jimin no Asō senshutsu", *Livedoor*, September 27th 2008.

\* Pseudonym.

dubious loans, injecting capital, and even resorting to temporary nationalisation if necessary. Furthermore, the Japanese government has put forward a bill which, in its amended version, would re-establish the law on backing financial operations (*Kin'yū kinō kyōka hō*) which expired at the end of March 2008, to allow the injection of liquidity by the DIC even into banks not facing difficulties.

Strengthened by its experience and the financial resilience which it has acquired, Japan is in a position to help in stabilising the international financial system. At all the successive international summit meetings, the Japanese government has recommended the injection of capital. Within the private sector, for example, Mitsubishi-Tōkyō UFJ Bank bought 21% of the shares in Morgan Stanley, and Nomura bought into the European and Asian branches of Lehmann Brothers.

Of course there are risks. Certain regional and local banks could be less resilient, having taken on excessive risks in relation to their size.

Following the pattern of other stock markets, the Tōkyō exchange is in free fall. This is due, on the one hand to investors' pessimism over the impact of the financial crisis on the real economy, and on the other, to the massive selling forced onto foreign investors by the considerable losses which they are facing elsewhere, either because they lack liquidity or because they are selling to reduce their exposure.

The major factor is that the slowing of the world economy, and the sudden rise of the yen, are hitting Japanese exports. Finally the inter-bank markets are tighter than before the crisis, even though the Japanese banks, unlike others, do not need the State to underwrite their debts.

For its part, the real economy cannot escape unscathed. All the indices taken together show a downward trend. The slowing of the world economy is hitting all exports. The fall in company revenues and the hardening of credit facilities is slowing investments in capital goods. At the same time, household consumption is stagnating because of the slowing in wage increases and rising prices.

In this context Japan has just passed a package of economic measures worth about 15 billion euros, consisting mainly of aid to small and medium enterprises<sup>15</sup>. The government has drawn up with immediate effect a new series of measures, providing for family compensations worth 16 billion euros, as well as tax credits for interest on loans. The re-establishment of the law on backing financial operations will provide support for these measures, allowing the banks to maintain, or even increase their contribution to economic activity. The government is even inclined to become a purchaser of banking shares.

The absolute priority of the new government is to put the economy back on track, and it will not hesitate to delay balancing the budget, especially in view of the approaching general elections.

The Democratic Party, which is the main opposition party, has also just published a series of proposals to restore the economy. In substance, they are very close to the measures taken by the government, with the exception that the Minshutō would like to see the exchange reserves used as a source of liquidity. Indeed, on this occasion the opposition prefers to work together with the government rather than oppose it, most probably in order to show that it would be able to replace the coalition currently in power, if it were to win the elections.

The Bank of Japan has also proven itself effective in the face of the crisis. It has strengthened the system already in place, allowing it to pump liquidity into the international markets in collaboration with its overseas counterparts. In particular it has established a means of making dollar liquidity available in Japan. It has also supported the joint lowering of the base rates by the 6 central US and European banks, through not lowering its own base rate (at 0.5%). This was considered helpful, but in the face of governmental demands and market expectations, it is

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<sup>15</sup> Cf. the cabinet web-sites; <http://www5.cao.go.jp/keizai/2008/0918summary-english.pdf> (on the package of measures; and the Finance Ministry site: <http://www.mof.go.jp/jouhou/syukei/h20/sy200929/sy200929h.pdf> (on the rectification budget).

not certain that it can hold off a further softening for long<sup>16</sup>.

In addition, the government has just appointed Yamaguchi Hirohide as vice-governor of the Bank of Japan, a post which had lain vacant for 6 months. The Democratic Party, which had opposed the previous governmental candidates from the Ministry of Finance, has approved this choice. Mr. Yamaguchi, an administrator in the Bank of Japan where he has occupied a wide range of posts over a career lasting 30 years, has a reputation for enjoying good relations with parliamentarians. In the present situation, his appointment will probably be welcomed in financial circles.

### POINTS OF NEWS

**Tanaka Akihiko, Okamoto Yukio<sup>a</sup>, "Can the world co-exist with China?" (Sekai wa Chûgoku wo kyôson dekiru ka), Chûôkôron, August 2008, pp. 26-37**

*Two leading experts exchange views on China's development, Chinese nationalism, and the teaching of history in China and Japan.*

**Okamoto:** It takes considerable efforts to hold together a nation of 1.3 billion inhabitants from diverse ethnicities and cultures, and to deal with a range of different legal structures and economic disparities across the whole country. Until the present time, the Chinese population was governed under the communist flag, but with the introduction of capitalism under party rules at the 16th Congress, in reality communism disappeared. The country now has only nationalism to hold itself together.

And Chinese nationalism is, almost by definition, anti-Japanese. Chinese nationalism gives importance to the Chinese communist party, whose legitimacy rests on opposing "Japanese imperialism". The more the Japanese are demonised as imperialists, the greater the party's legitimacy. Contemporary Chinese

nationalism depends upon the denial of any partnership with its others.

**Tanaka:** The goal of the Chinese government is to build a stable egalitarian society. Of course, that does not mean that it will get there. It is no small matter to reduce the inequalities in Chinese society and maintain stability, but the fact that the government has that aim is already something.

(...) Hu Jintao has certainly contributed towards normalising relations with the governments of Abe and then of Fukuda. But some people feel that his latest visit to Japan has not achieved much progress.

Yet the tensions which have arisen from time to time in recent years between China and Japan have had no objective causes. They have all turned on three issues which are largely symbolic in nature. The Japanese believe that the Chinese do not acknowledge Japan's peaceful development since the end of the war; and they reproach them for not expressing any gratitude to Japan for its contribution to China's economic development. As for the Chinese, they believe that the Japanese have still not fully confronted what they did during the war, and that they feel no regrets.

But the speeches made by Wen Jiabao last year, and by Hu Jintao this year, at the time of their visits to Japan, were carried on Chinese television, and with regard to the following three points they were in agreement with the Japanese position: that Japan's post-war peaceful development has been extraordinary, that China is grateful for the Japanese contribution to its own development, and that the Japanese leadership has frequently expressed its regrets over the crimes of the past. On these three points, which used to be the main problem, China has taken the messages from Japan into account.

Next, although it has taken a certain time to bring about, we have to welcome the fact that an agreement has been signed to allow the joint exploitation of the natural gas deposits under the East China Sea, even though such an agreement inevitably met with resistance in China itself.

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<sup>16</sup> In fact the Bank of Japan announced a new base rate of 0.2% on October 31st.

<sup>a</sup> Tanaka Akihiko lectures at Tôkyô University and Okamoto Yukio is a former diplomat and political analyst.

**Okamoto:** The Chinese government is certainly making an effort, but unfortunately I believe that they are dealing with symptoms rather than the underlying cause.

That cause is just as much the anti-Japanese education given to Chinese youth as the omissions in the teaching of history in Japan. In Chinese schoolbooks we still read that the Japanese killed 20 million people. Young Chinese cannot be expected to like the very people who, they are told, killed 20 million of their grandparents in recent times! And in Japan, the Shōwa period (1925-1989) is virtually untaught. When I question my university students, it turns out that 90% did not do contemporary history at secondary school. They left school without ever having studied that period. We will not have healthy relations with China until we have stopped sweeping these wretched events under the carpet, and until we have compiled a history book together, like the French and the Germans. Then our children who have studied it will shape our society differently.

Can this be easily achieved? I think that in Japan, it can. As soon as those in charge declare that studying the history of the Shōwa period is compulsory, it will happen. It will be more difficult in China, and as long as it is not a democracy, the difficulty will remain. The Japanese can offer as many apologies as they like, but they will only be adding fuel to the flames. As long as differences of opinion cannot be heard in China, enabling people to see the peculiarities in the CP's version of history, there will be no changes to the way that history is understood over there. That is going to take an enormous amount of time. Here I have to blame the Shōwa period leaders for their stupidity. Nowadays, 70% of the foreign enterprises located in China could well be Japanese, and the Chinese and Japanese economies could have become far more mutually interrelated than they are. Instead of that, China's relations with the United States and the EU are becoming closer and closer.

**Tanaka:** I think that despite everything, our relations with China are moving in the right direction - including the matter of China's mistrust of Japan and its manipulation of anti-Japanese feeling.

However, the Chinese are very anxious, and they consider Sino-Japanese relations to have a fragile basis. These relations improved when Fukuda refrained from visiting the Yasukuni shrine, but they could be jeopardised again if the next Prime Minister does not make the same decision.

**Koike Yuriko, "The Diet and Japanese-US relations plunge into chaos - but do the times call for a Prime Minister like Ozawa?" (Kokkai, nichibeikankai wa daikonran; Soredemo jidai wa ozawa sōnri wo motomeru no ka?), *Chūōkōron*, October 2008, pp. 66-72.**

*Mrs. Koike is a former journalist and government minister (Environment, and Defence), who stood against Asō Tarō for the post of Party chairman last September. Backed by Koizumi Jun'ichirō, she presented herself as a reformist in the campaign. Here she outlines her opinion of Ozawa Ichirō and the LDP's ability to reform Japanese politics.*

Could the LDP be incapable of reform?

In 1994, I took part in creating the Shinseitō, the New Progress Party, in which I served as assistant secretary to the Party secretary, Ozawa Ichirō. In the following six years I accompanied him in setting up the liberal and then the conservative parties. Why did I do that? It was because I had been impressed by the programme for reforming Japan which he set out in his book published in 1993.

In that book he presented a clear vision, influenced by American ideas, of the reforms which Japan needed. The Cold War was ending, and the speculative bubble had just burst. Ozawa explained that the Self-Defence Forces needed to be given the means to create rapidly and effectively the desirable strategic environment for peace and Japanese security, that regulations hampering economic growth needed to be removed, and that new measures favouring individual initiative and personal responsibility should be put in place. That was an avant-garde vision.

At the age of 47, Ozawa was the LDP party secretary. Like other parties, the LDP relies on its grassroots networks – the construction sector, the peasants, the

fishermen... Sending a message like his to their co-operatives and enterprises was unprecedented. Ozawa openly brandished his reformist slogans, but the man who finally carried out the reforms was Koizumi Jun'ichirô.

Thanks to the backing of Kanemaru Shin, Ozawa came within an inch of being Prime Minister after Kaifu. He decided that no-one could implement the reforms as a member of the LDP, so he voted for the no-confidence motion against the government and left the party.

Unlike Ozawa, Koizumi became Prime Minister, fought against the interest groups defended by the LDP, and deregulated sector after sector of the economy. After winning the elections in 2005, he reformed the Postal Service. Between the moment when Ozawa could have become Prime Minister and the reforms introduced by Koizumi there was a gap of 16 years, and who knows how many billion yen were wasted?

**Îo Jun, Kitaoka Shin'ichi<sup>β</sup>, "Five major debates over government, diplomacy, domestic policy, political strategy, and leadership" (Itsutsu no ronten kara bunseki suru - tôchikôzô, gaikô, naisei, seiryaku rîdashippu), *Chûôkôron*, October 2008, pp. 74-83**

*Here two academics discuss the development of the Minshutô and Ozawa Ichirô's ideas.*

**Kitaoka:** Despite the fact that the Minshutô popularity ratings are not good, there is a real possibility of its winning the coming elections - in which voting will be for or against the LDP.

**Îo:** In any case the electorate's desire for a change coincides with Ozawa's focus on the need for an alternative.

**Kitaoka:** Would Ozawa make a good leader? Oppositions are usually willing to make trouble in order to get into power. The criticisms from the Minshutô are said to be irresponsible, but when the Jimintô was in opposition under Hosokawa, it

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<sup>β</sup> Respectively, professors at Saitama University's Centre for Political Studies, and at the University of Tôkyô.

showed no more responsibility. What is more, the Minshutô has been a rather effective opposition party; a lot of information has come to light, which would probably not have been made public if the same party had had a majority in both houses.

But could Japan actually work under the policies currently proposed by Ozawa? No. In the declarations which he made during the party's "summer university" in July, he seemed to be returning to the *Plan for reforming Japan* which he expounded in his book in 1993. He called for a reform to the political system, and a clarification of the various areas of responsibility. He also wanted Japan to undertake the same international activities as the other leading countries. He has changed his mind on that, as we saw in his opposition to the deployment of the Self-Defence Forces in the Indian Ocean<sup>17</sup>.

**Îo:** Given his attachment of central importance to the UN and the alliance with the US, he has an unquestionably idealistic and legalistic approach to diplomacy. If we now adopted Ozawa's way of thinking, Japan's international contribution would be diminished.

**Uekusa Kazuhide, "The collapse of America's casino economy threatens Japan" (Beikoku kajino keizao hatei ga nihon wo osou), *Shûkan kinyôbi*, no. 722, October 10th 2008, pp. 14-15.**

*Writing before the rescue plans were adopted in Europe, followed by America, this economist criticises the excesses of US-style economic liberalism, and especially the way that it was implemented, albeit partially, in Japan.*

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<sup>17</sup> *Ed.:* This is not quite accurate, as Mr. Ozawa has always insisted on the importance of Japan's participation in operations conducted within the mandate of the UN Security Council. It is doubtless the missions themselves which have changed, rather than Mr. Ozawa's position. On the question of the deployment of the Self-Defence Forces in the Indian Ocean, however, the Minshutô's proposal is not without its ambiguities (cf. *Japan Analysis*, no. 10, January 2008).



Neo-liberalism, also known as "market fundamentalism", has given rise to considerable wealth gaps in the United States.

With the retirement of Mr. Koizumi, his "market fundamentalism" is firmly ensconced in Japan. It has produced job insecurity, and a class of "impoverished workers" which, along with the system of care for the aged and the self-reliance law for the handicapped, are a serious threat to people's standards of living. The disappearance of the "safety nets" is the outcome of Mr. Koizumi's ultra-liberalism.

(...) The acceptance of the collapse of Lehmann Brothers, and the House of Representatives' refusal (initially) to vote for a stabilisation plan, were based on the principle of "individual responsibility", which is the founding principle of economic liberalism: those responsible must face the consequences of their actions.

In Japan, financial problems have been handled somewhat ambiguously. In May 2003, to avoid the collapse of the Resona Bank, the Koizumi government released an aid package financed from the State's fiscal revenue, rather than letting market forces punish the bank. The government had announced a growth stimulus policy, saying that it would not let the large banks go under, which led to a collapse in the exchange rates, so it then adopted a recapitalisation plan financed by taxation.

Markets react badly to plans for refinancing bank capital through tax measures, when their poor management is not punished in the light of the responsibility principle. Consequently, Japanese stocks plummeted. Mr. Koizumi probably held a discussion with Mr. Bush about the recapitalisation plans following the collapse of Japanese stocks, because during that period he arranged the purchase of 47 billion dollars. This collapse, the devaluation of the yen which it caused, and the massive purchase of foreign currency, led to a fire-sale (*baikoku seisaku*) of grossly undervalued Japanese stocks.

The slowing of the global economy, the loss of confidence, and the political confusion are going to have a negative impact on the Japanese economy. We

have the right to expect a change of policy, which would take measures to protect people's standards of living.

In this situation, the coming elections have a particular significance. They offer the possibility of challenging the market fundamentalism currently in force in Japan.

The electorate must bear in mind that they will be given the chance to choose between: 1. an economy based on speculation (*jakuniku kyōshoku shōrei*) or a strengthening of the safety nets, 2. a powerful government or a controlled one, 3. a diplomatic policy subservient to the United States or an independent one. Opting for such alternative policies, in the US as well as in Japan, will be the most effective response to the present situation.