

Crunch Time for Japan's Noda
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The Leader Who Loves Taxes

In this day of worldwide austerity, Japan's Prime Minister Yoshihiko Noda stands out as politician who has literally bet his political life on the proposition that he can get Parliament to raise taxes.

Whether he can pull this off will become apparent over the next two weeks as his bills to effectively double the national sales tax must clear both houses of parliament by June 21 when the current session officially winds up. It is uncertain whether he can extend the parliament's life further if he needs to pass the bills.

Noda has to maneuver on two fronts. There is considerable opposition within the ranks of his own Democratic Party of Japan (DPJ). Last week Noda tried unsuccessfully to persuade the leader of the largest faction, Ichiro Ozawa, of the necessity for raising the sales tax.

Having failed in that approach, Noda immediately pivoted to the opposition, made up of the Liberal Democratic Party (LDP) and its coalition ally Komeito. If he can't pass the bill with his own party, he looks to form a short term alliance of opportunity with the opposition to approve the bills. In any case, he needs LDP cooperation to pass the upper house where the DPJ is in the minority.

As one step in this direction Noda reshuffled his cabinet in a minor way, relieving two ministers, Defense Minister Naoki Tanaka and Transport Minister Takeshi Maeda, both of whom had been formally censured for misstatements by the LDP-controlled upper house of Japan's bicameral legislature. It is seen as kind of a peace offering to the opposition.

Noda's party has a huge majority in the more powerful House of Representatives, as a result of its historic landslide victory in the summer of 2009, so by rights he should have no trouble imposing a party-line vote in parliament. After all, as party president he can expel dissidents and deny official support in the next election support.

However, the faction loyal to Ozawa is large and could join with the opposition parties to defeat the bill. That assumes of course that all 100 or so members of the Ozawa faction in parliament follow his advice and vote against their own government when the crunch time comes. That is a big uncertainty.

Noda's flirtation with the opposition is not as quixotic as it might seem. Unlike the Republican Party in the U.S. the LDP is not opposed to raising taxes in principle. No opposition member has signed a pledge to oppose any and all tax rises. Many members believe that such raising the consumption tax is necessary to keep the country solvent.

A 5 percent national sales tax was first imposed in Japan in 2005. Noda proposes to raise this in two stages to 10 percent by 2014. Virtually all of the revenue would go to shore up social

security, which suffers from the familiar problems of rising outlays and declining revenue base as the country ages.

However, the opposition may demand something in return for their votes. That something could range from fairly modest adjustments to the government bill to fix social security to a demand that Noda dissolve parliament and call for a new election, probably as early as this summer, a full year before the government actually has to go to the voters again.

On the other hand, the threat of a snap election frightens many of his own party members, a large number of them freshman legislators with weak support at home, fearful of losing their seats. That may be enough to overcome their reluctance to buck Ozawa, to whom many owe their seats through his electioneering skills, or concern they may be punished by the voters for doubling the national sales tax.

The euphoria that surrounded the party following its historic victory three years ago this summer faded long ago. The ruling party has already gone through two prime ministers and of necessity has had to scrap much of the election manifesto it ran on, including a promise not to raise the sales tax in its first term of office.

It has had to deal with the aftermath of what has been termed the worst disaster to hit Japan since the end of World War II. The imperative to pay for reconstruction costs in the parts of Japan inundated by the March 11, 2011 earthquake and tsunami has forced the DPJ to abandon proposals such as eliminating highway tolls, to raise money for reconstruction.

Voters unhappy with both main political parties are groping for fresh voices and upstarts. Of the new movements, the most threatening emanates from Osaka Mayor Toru Hashimoto's Osaka Restoration Party, which may morph into a new Japan Restoration Party at election time.

Some pundits believe that the new group could win as many as 50 seats in the Kansai region (Osaka, Kyoto and Kobe) in the next general election, wiping out the main parties in that vital region. The fact that Noda is widely expected this week to order two nearby nuclear power plants to restart in order to prevent power shortages this summer isn't exactly helpful for the prime minister either.

If nothing else, Noda is focused. He has long proclaimed that passing the consumption tax rise was the overriding goal of his administration, more important to him than some of the other critical issues facing Japan such as dealing with electric power shortages, joining the Trans Pacific Partnership and many others ideas.

Whatever happens in the next few weeks the prime minister must defend his job at the next regularly scheduled party congress in September (so does LDP president Sadakazu Tanigaki) If he can get past crunch time, he may have a good chance of winning reelection and staying on as premier. If not, look for a fourth DPJ premier in so many years— or maybe somebody entirely new.

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