



Behind the Screen: Happy Days by John F. Neuffer

The Japanese economy may be in terrible shape, but you'd never know it from the public's evaluation of Prime Minister Keizo Obuchi these days. Last Tuesday, the Asahi Shimbun released an opinion survey that showed Obuchi's public approval rating at 37 percent, up five points from last month and the highest it's been since coming to office. Remember this was the guy who was supposedly dead on arrival last summer.

Why the big turnaround? For starters, by bringing the Liberal Party on board in January and seducing the New Komeito with policy handouts, the LDP has imposed a degree of stability on Japanese politics not seen in years.

Obuchi must have pinched himself last Friday when the lower house passed the fiscal 1999 budget. Even if the upper house rejects the spending package, it automatically becomes law on March 20 because the lower house constitutionally has the final say on the matter. That means the budget will win Diet approval faster than any in post-war Japan.

Now in control of 305 seats in the 500 member lower house, Obuchi has been moving legislation through that chamber virtually unchallenged and the public seems perfectly happy with this arrangement.

In the upper house, where the ruling alliance is 10 seats shy of a majority, the LDP has been working feverishly to chip away at opposition solidarity by wooing the New Komeito, which controls 24 upper house seats. The LDP knows that the New Komeito is concerned about doing well in local elections to be held in April. Last week, for instance, the LDP caved to the party by agreeing to decrease taxes on middle-income households, expand financial assistance to families with children and senior citizens and bolster scholarship programs for students. With the deal, the New Komeito has said it will support legislation to pass ¥9.3 trillion in tax cuts, a critical element in the government's efforts to revive the economy.

As for the other opposition parties, they've utterly failed to launch a credible challenge to Obuchi. Sure, Japan's largest opposition force, the Democratic Party, has been blasting Obuchi for loading up the budget with pork-barrel money for Japan's famously inefficient construction companies. But the party has been afraid of making an aggressive attempt at blocking the spending package over concerns that the media will label it as obstructionist. Moreover, the Democrats haven't offered any serious new initiatives for putting this economy back on its feet. Heavily dependent on labor, Party President Naoto Kan is not about to advocate painful economic restructuring measures that would lead to higher unemployment.

The ineffective opposition aside, one of the biggest reasons Obuchi is getting higher approval ratings stems from

the growing public belief that he is beginning to get a handle on the economy. In addition to passing the state budget in record time, the Financial Reconstruction Commission is making the prime minister look like he's doing a good job of healing the country's sickly banks. About to dole out ¥7.45 trillion in taxpayer money to them, the FRC is receiving lots of positive press for the discipline it's apparently imposing on the financial sector.

The LDP has also managed to head off the crisis ignited in December when the finance ministry's Trust Fund Bureau abruptly said it would stop buying government bonds. That drove bond yields up dramatically and with it long-term interest rates – the last thing this stuttering economy needs. By publicly browbeating the Bank of Japan, the party forced it to begin guiding the unsecured overnight call rate down from .25 percent to near zero. Then MOF announced last week that the TFB would resume purchases of government bonds until the end of the fiscal year. The two steps immediately drove down long-term interest rates.

Obuchi has been getting help from the Clinton administration, as well. In spite of the growing bilateral trade deficit, the U.S. Treasury is now signaling it believes monetary easing is the last economic tool left to Japan. That means a weaker yen and more exports -- just the ticket for Obuchi. Trade friction be damned.

Obuchi is hoping his massive budget and the bank bailout scheme will breathe life back into the economy. Once all the money is spent, however, will Japan be able to cope with its enormous public debt and will it be headed for sustainable growth? In light of the short shrift the LDP is giving to deregulation and its desperate attempts to keep afloat deadbeat companies that support the party, there's ample reason to believe that any growth Japan manages to achieve in fiscal 1999 will amount to no more than a dead-cat bounce. But that's a long-term problem for Obuchi. He has more short-term political objectives on his mind, such as the local polls this spring and the LDP presidential race in September.

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