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Japan: Nakasone's Legislative Agenda





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Summary

The regular Diet session ended on 27 May with several key items, including tax reform, still remaining on Nakasone's legislative agenda. Political observers believe he has another shot at securing reform when the extraordinary Diet session convenes in early July. The session will also focus on passing the supplemental budget that Nakasone touted during recent visits to Washington and Venice. The press notes that Nakasone may also push for progress on some of his other major reform projects, such as education, but we believe an already full docket suggests progress in these areas will be unlikely, particularly as succession maneuvering heats up.



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This memorandum was prepared by  Office of East Asian Analysis. Information available as of 29 June 1987 was used in its preparation. Comments and queries are welcome and may be directed to the Chief, Japan Branch, Northeast Asia Division, OEA, 

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Budget and Tax Reform...Again

Throughout the spring, the Japanese press devoted extensive coverage to one of the stormiest Diet sessions in recent memory and focused particular attention on protracted negotiations that led to passage of the FY 1987 budget 22 days after the fiscal year actually began. In the opinion of Secretary General Takeshita, it was one of the most unproductive Diet sessions in his 29 years in politics. Only 72 percent of the bills submitted by the Cabinet were approved during the regular Diet session, well below the normal 95 percent completion ratio. Among the measures Nakasone was forced to shelve were major tax reform proposals, including a controversial sales tax. Nakasone will have another chance to tackle his unfinished legislative agenda when the extraordinary Diet session, which could last as long as 75 days, begins in early July.

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Nakasone's first priority in the extraordinary session will be passage of the supplemental budget, which includes \$41.4 billion in stimulative measures designed to boost a sluggish economy. In the opinion of one expert, the economic package will boost GNP by twice the amount of government outlays. However, other commentators are less upbeat about its impact on growth and Japan's trade surplus. One economist claims the government package is window dressing, and doubts the government's claim that the measures will serve to reduce the trade surplus drastically beginning in late 1988. And editorials in Asahi, a leading journal that usually stridently opposes Nakasone's economic policies, have argued that the pumppriming will only benefit big business. More specifically, some observers are concerned that most of the public works funding will be exhausted by the purchase of overvalued land in Tokyo and Osaka.

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The second item on the Prime Minister's agenda is tax reform. He hopes to address this issue as soon as members of an ad hoc bipartisan tax council work out a package agreeable to the opposition parties. According to press reports, Chairman Ito of the Ad Hoc Tax Reform Council expects the group to submit its final recommendations on tax reform toward the end of July. As a result, the Prime Minister is confident that he will be able to make progress on portions of his tax reform plan this summer, according to a speech he made in late May.

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Some media observers, including Asahi journalists, believe Nakasone may be overly optimistic about the odds of winning approval of tax reform in the extraordinary session. Nonetheless, most press stories suggest that Nakasone has laid solid enough groundwork to complete the program by fall. Observers cite several reasons that opposition parties may prove more cooperative than they were during the regular session:

- Public support for tax reform is growing. Even before the LDP agreed to amend the sales tax, criticism of the concept of introducing an indirect tax was beginning to fade. While opposition parties and labor unions working together were able to organize a demonstration of 5,000 to protest against the sales tax in mid-April, an unpublicized, spontaneous pro-reform rally on the same day attracted almost half this number. In addition, a May poll on tax reform showed that 90 percent of those queried indicated support for some form of tax reform.
- The opposition parties were united in their antitax reform campaign during the regular session, but the consensus on strategy is already beginning to fray. Even among the Socialist and Komeito parties, whose leaders scored points by leading the attack on the initial sales tax proposals, reportedly many would support Vice Prime Minister Kanemaru's proposed substitution of a 1-percent "welfare tax" with proceeds presumably earmarked for popular social programs. Moreover, pressure from union backers and some of the party elders forced the chairman of the Democratic Socialist Party to admit that tax reform is necessary. [REDACTED]

Editorial sentiment toward adoption of a "welfare tax" appears generally positive. For example, the Mainichi, one of the newspapers most critical of the initial 5-percent sales tax plan, has indicated that it favors such a small-scale indirect tax. [REDACTED]

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What's Next

Nakasone has an ambitious legislative gameplan outside of the fiscal policy field, which we attribute to his desire to sustain leadership momentum as succession maneuvering gets under way. Press reports suggest that his strategy of raising numerous policy issues is designed to keep opposition parties off balance as well. Even under the most optimistic scenario, however, the Diet would be hardpressed to address many of the other issues Nakasone has raised, particularly as succession maneuvering begins to distract party leaders as Nakasone's 30 October departure date nears:

- **Agricultural Reform.** In the remaining months of his term, Nakasone may try to ride hard on agricultural interests as a means to set the stage for his successor to liberalize the domestic rice price support system. Despite the hardline he adopts in discussions with U.S. officials, Agricultural Minister Kato, in speaking to domestic audiences, reveals a policy preference strikingly close to Nakasone--arguing that the food distribution system must be reformed before import liberalization can be contemplated. To begin this process, Kato worked to cut farm subsidies by 20 percent starting last fall and says he wants to abolish them totally in the future.
- **Education Reform.** Major daily reports indicate that Nakasone is closely monitoring the progress of deliberations on this issue. His Ad Hoc Commission on Educational Reform has already produced its third set of recommendations, which the Japanese press has characterized as the most drastic on this subject since the War. The final recommendations, which include a change in the start of

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the school year--switching it from April to September--are scheduled to be announced this August. [Redacted]

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Finally, Nakasone plans to reintroduce a bill to privatize Japan Air Lines (JAL). Although privatization was originally scheduled for July 1987, the legislation was delayed by the sales tax wrangle. Many labor and management issues surrounding the sale of JAL stock remain to be settled, but the ruling party has said it plans to pass the necessary legislation by the fall anyway. [Redacted]

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NAKASONE'S ACHIEVEMENTS 1986

NAKASONE'S 1987 BLUE PRINT

--- Foreign Affairs ---

Foreign ministerial level Japan-USSR consultations revived after eight years, clearing way for economic and cultural exchanges and visits to grave sites in the Northern Territories by the Japanese for the first time in 11 yrs.

Acted as a host of the successful Economic Summit in May. Firmed up relations with ROK and the PRC during second visits since taking office.

Successful "goodwill tour" to Eastern bloc countries of East Germany, Yugoslavia, and Poland.

Use trip to US in late April to improve US-Japan bilateral atmosphere; reduce tension.

Ensure Venice Summit participation a success.

Initial hopes for Summit with Gorbachev have fallen by wayside.

--- Defense Issues ---

Established a crisis management apparatus, dubbed the National Security Council.

Secured ruling party parliamentary endorsement of National Defense Program Outline as official plan.

Built consensus necessary to approve an official government policy favoring SDI participation.

Foster further consolidation of distinct defense missions under individual services.

With passage of budget, gained Diet approval of a new policy breaking 1 percent ceiling on defense spending.

Solidify restructured crisis management apparatus.

Continue to encourage industry participation in SDI through completion of bilateral MOU agreeable to industry.

Continue debate on an espionage law.

Upgrade status of the lower house National Security Research Committee.

--- Reform Programs ---

Passed the bills to divide Japan National Railway (JNR) into six private corporations effective 1 April 1987.

Created six Cabinet Secretariat offices to enhance prime ministerial leadership and to improve crisis management.

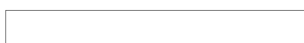
Reduced or held constant for the fifth consecutive year the amount budgeted for current national government expenses.

Pass a revised tax reform bill by the fall.

Complete privatization of railways.

Gain Diet approval of privatization of Japan Airlines in September.

Act on final recommendations of Educational Reform Council once they are released. The reform bill is due to face Diet approval in 1988.





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Achieved major liberalization of the financial system.
Passed bill reallocating lower house seats.
Reformed health insurance for elderly and infirm.

Encourage debate on reform of price supports to set the stage for agricultural reform.
Adopted comprehensive economic package to stimulate domestic demand.
Enact five-day work week.

--- Political ---

Achieved record breaking LDP majority of 304 plus by holding "double elections" in July 86.

Helped maintain status quo at the polls during the nationwide local elections in April.
Play the role of "kingmaker" in choosing his successor and continuing to be a major political force in the next administration.



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