

Japan and Germany Vote on Reform

Elections in the world's second and third largest economies on successive weekends in September 2005 produced sharply contrasting results, with Prime Minister Junichiro Koizumi of Japan winning a huge mandate and the German poll ending in a split decision. In both countries the elections were, at their core, referendums on the future course of economic reform. In Japan, voters proved themselves both eager for reform – any reform – and willing to entrust the theatrical incumbent with bringing this about. German voters, by contrast, were unconvinced that candidates had the will to implement reforms, punished the major political parties for their lack of vision for the future of Germany, and withheld a governing mandate; much work must be done to restore confidence.

Koizumi Wows Japanese Voters – and Wins a Clear Mandate for Reform

In a result that surprised even the most optimistic ruling party officials, Prime Minister Junichiro Koizumi led his Liberal Democratic Party (LDP) to a resounding victory in Japan's parliamentary elections on September 11. The LDP picked up 84 seats to attain an absolute majority of 296 in the 480-seat Lower House of Japan's Diet. Koizumi immediately announced that he would retain the LDP's prior alliance with the Buddhist Komei Party, bringing the coalition's total seat count to 327. By contrast, the opposition Democratic Party of Japan (DPJ), which had made steady gains in previous elections, lost 64 seats to fall to a total of 113.

Koizumi had taken a bold gamble in calling the Lower House election following defeat in the Upper House of a postal privatization bill that the Prime Minister had long championed as the single highest priority of his administration. While not necessarily enthusiastic about postal reform (or about the LDP), Japanese voters, particularly in urban areas, responded well to the Prime Minister's bravado and message of change. His campaign tactics of zeroing in on a single policy issue, declaring himself willing to "die" politically for his convictions, and hand-picking a slate of young urban "assassins" to depose anti-reform elements of the LDP proved strikingly effective. The DPJ, despite having previously positioned itself as the reform-oriented alternative to the LDP, made what appears to have been a serious strategic mistake in opposing the postal legislation, allowing Koizumi to position his "new LDP" as the real party of reform.

The election result has a number of significant implications for Japanese politics, economic policy, and foreign relations. Koizumi's swashbuckling approach to campaigning is likely to have a lasting impact on the style of Japanese politics, spawning imitators on both sides of the aisle. The outcome also reverses the trend over the past couple of elections toward a two-party system and restores the LDP to the predominant position it had enjoyed for most of the postwar period. And perhaps most importantly, the LDP's gains among urban voters mark a significant shift in the balance of power in Japanese politics from rural to urban interests.

This shift augurs well for economic reform in Japan. Urban voters have less stake than the LDP's traditional rural constituents in the market-interventionist, distributional policies that characterized Japan's postwar economic miracle; they are more willing to support parties or candidates who advocate deregulation, privatization, and other market-oriented reforms. Following passage of the postal legislation, which is now assured (the ruling coalition's two-thirds majority enables it to override Upper House dissent), Koizumi and his revitalized LDP will have a mandate to pursue other needed reforms such as overhauling the pension and health insurance system to serve an aging population, streamlining government functions, and cutting agricultural supports.

On the foreign policy front, the result appears to have advanced Japan's progress toward becoming a "normal nation" in global affairs. Japanese voters implicitly endorsed Koizumi's more assertive approach to foreign policy, including the constitutionally questionable decision to send Japanese troops to Iraq. What Koizumi chooses to do in the foreign policy arena with his new mandate is less clear. While some observers believe he will pursue more nationalistic policies, it is equally possible that a more politically secure Koizumi could moderate his stance, notably by attempting to patch up relations with China and Korea, without fear of a conservative backlash at home. Whether Koizumi decides to make an official visit to the controversial Yasukuni Shrine this autumn will be an early indication of how he plans to handle relations with Japan's Asian neighbors.

U.S.-Japan relations, meanwhile, are likely to remain strong as long as Koizumi and Bush are in office. There had been concern before the election that significant DPJ gains could lead to new tension across the Pacific, particularly if Tokyo recalled its troops from Iraq or pressed for a substantial downsizing of the U.S. military presence on Okinawa.

While the LDP's strong mandate points to more robust Japanese economic and foreign policies in the near term, several caveats are in order. First, even as the votes were still being counted on election night, Koizumi announced that he intends to step down when his term as LDP party president ends in September 2006. With only one year left in his term, with no clear agenda following passage of the postal legislation, and the LDP leadership succession wide open, it remains to be seen how meaningful and durable the "Koizumi Revolution" will be in practice.

Moreover, the restoration of a strong LDP facing minimal opposition in the Diet raises questions about the longer-term prospects for reform, insofar as the LDP becomes complacent or riven with factional rivalries as the victors fight over the spoils. In fact, a close look at the poll results shows how much more fragile the LDP's position is than its overwhelming Diet majority would indicate. The landslide on September 11 resulted from a relatively small percentage swing in votes to the LDP across a large number of Japan's single-seat constituencies; a small swing back in the opposite direction could easily knock the ruling party off its perch. This should put a check on LDP complacency and support continued momentum toward economic reform. As always in Japan, however, there is the possibility of disappointment if Koizumi and his political heirs fail to take full advantage of the unusually clear mandate they have received from the Japanese people.

Germans Vote "No Confidence" Over "Same Old" Economic Reforms

Hopes that German national elections would yield a fresh start for that stagnating country were dashed on September 18 when voters withheld a popular mandate from either of the opposing political coalitions or their economic programs.

Germans had hoped the whirlwind three-month political campaign would offer up a convincing economic program to stimulate economic growth. Instead, the election results reflected voter frustration that Chancellor Gerhard Schroeder had avoided addressing this subject at all, while opposition leader Angela Merkel had promised "blood, sweat and tears" but no comforting vision of where this would lead Germany in the end.

Schroeder's incumbent coalition of middle-of-the-road socialists and the Green Party lost substantial ground, as voters punished their abysmal economic record of high rates of unemployment over the last seven years in government. Most damaging to the Chancellor was his own rivalry with the leadership of the far-left

political spectrum that opposes economic reforms that would reduce the role of the state in the economy. A new splinter party made up of these leftist forces, Die Linke, attracted 20 percent of Eastern German voters and 8 percent of all the electorate. Without them or a part thereof, Schroeder has no obvious way to form a governing majority.

Both sides fell short of the 50 percent mark which would have allowed the winner to form a government. Merkel's right-of-center coalition – the CDU/CSU – actually lost electoral ground since the last national election in 2002 while edging out Schroeder's SPD by a narrow margin. Splinter parties like Die Linke and the liberal, free market oriented FDP did better than usual, as voters tried to build up potential coalition partners.

In a desperate, rather than daring, political move, the out-of-cycle elections were forced by Schroeder and then approved by President Koehler as a referendum on the German economy. Schroeder's party had lost virtually all regional elections since 2002, erasing his majority in the German upper house and wounding his political credibility to continue to lead Germany. His promise that implementing timid reforms to pension and healthcare programs would lower unemployment and stimulate economic growth were not borne out, as unemployment rose to an all time high of nearly 5 million Germans.

The election results showed that the majority of Germans endorse economic reforms but have no confidence that the leading political parties are on the right course. But they also pointed to something more fundamental: a real crisis of confidence with regard to economic policies, institutions and the political parties that have traditionally governed Germany.

The inconclusive outcome of the closely fought election in Germany, Europe's biggest yet one of its most sluggish economies, only deepens the prospects for Eurozone stagnation. Hopes that the vote might usher in bold German economic reforms that would spill across borders have been dealt a blow. Rather than embarking on a fresh start under revitalized leadership, Germany saw its political leaders begin the tortuous process of trying to form a new government built on politically difficult coalition-building. As of late September, it was unclear whether this process would be accomplished in less than several weeks – or even which of the two major protagonists, Schroeder or Merkel, would become Chancellor.

Whatever the outcome of the coalition-building, two main conclusions can already be drawn from this election. First, unlike Japan, German voters proved unwilling to take a step into the future without a roadmap. Perhaps the frustration level is not yet high enough among the German electorate to make fundamental departures from 60-year-old political and economic paradigms. Germans are notorious in their desire to take change in small doses. The second is that the German electorate, like many other European economies in 2005, has a bad case of *Staatsverdrossenheit* – disenchantment with and even distancing from the state. Ninety percent of the electorate wants change, but 75 percent do not believe politicians have the skill or will to do what is necessary to restore economic growth.

The 2005 German elections have proved to be a disappointment to many looking for a clear course correction for this large but stagnating economy. Seeing nothing new, the German electorate withheld their endorsement. The next few months will test Germany's political establishment and probably produce a new generation of politicians who are able to win the confidence of German voters.

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