

**THE FUKUDA ADMINISTRATION:
COPING WITH JAPAN'S
POLITICAL GRIDLOCK**

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Executive Summary

A series of scandals have hit the Fukuda Administration: the government's failure to maintain proper pension records, tardiness in compensating hepatitis C victims who suffered from tainted blood products, and corruption involving the Ministry of Defense. Moreover, lacking control of the Upper House means that the Fukuda Administration is facing great difficulties in pushing through its legislative agenda.

Armed with a two-thirds majority in the Lower House Prime Minister Fukuda should be able to override the veto of the Upper House. However, he appears hesitant to do so to avoid being criticized for being "dictatorial" and ignoring Japanese norms of consensus and compromise.

Fukuda has acknowledged that it is most unlikely for the ruling coalition to win a two-thirds majority in the next Lower House Election. If the ruling coalition wins the election short of a two-thirds majority, it will face a worse quandary: how to pass legislation when it has lost a two-thirds majority in the Lower House to override the opposition-controlled Upper House? The post-war Japanese political system will then face an unprecedented gridlock.

Making key appointments to state-linked organizations is another big headache for the Fukuda Administration. By convention, important personnel appointments such as the president of the Bank of Japan need the consent of both Lower and Upper Houses.

Conceivably, Fukuda has three options: first, forge a grand coalition between the ruling Liberal Democratic Party (LDP) and the main opposition Democratic Party of Japan (DPJ); second, negotiate and seek consensus on policy issues on a case-by-case basis; and third, ignore the opposition's veto and ram legislation through the Lower House by utilizing the two-thirds majority of the ruling coalition.

To empower the Maritime Self Defense Force to restart its refueling assistance in the Indian Ocean, Fukuda had no choice but to override the veto of the Upper House to ensure Japan remain as a trusted ally of the United States.

The Fukuda Administration has to cope with immediate problems especially scandals and political gridlock and has no time to address long-term problems confronting the nation: the insolvent pension system, an aging population, a demographic decline, and the unpopular but necessary hike in consumption tax to reduce public debt and pay for the pension fund.

The LDP panel on fiscal reform has called for a consumption tax hike to ten percent but the Fukuda Administration is not prepared to make such a risky move which will alienate voters and create a backlash in the next Lower House Election.

Japanese politics is in uncharted territory since the LDP's loss of the Upper House to the opposition. If the political gridlock between both Houses persists after the forthcoming Lower House Election, there will be mounting pressure from Big Businesses, the media and public opinion on the LDP and DPJ to once again explore a grand coalition to break the impasse.

A poor LDP result in the next Lower House Election (slated after the July 2008 G8 meeting at Lake Toya, Hokkaido) will probably lead to the resignation of Fukuda as Party President and Prime Minister. However, Japan in the post-Fukuda era will remain mired in political paralysis if the impasse between the Lower and Upper Houses persists.