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Beware a sharp turn to the right in Tokyo

EDITORIAL

IS controversial Tokyo governor Shintaro Ishihara about to become Japan's next prime minister? There is speculation that an alliance is being forged by Mr Ishihara; Shizuka Kamei, leader of the People's New Party (and a former police officer); and Takeo Hiranuma, leader of the Sunrise Party of Japan. All of them are from the right wing of the political spectrum.

They reportedly intend to launch a new political party very soon. The formation of new political parties happens at least as often as the nation changes prime ministers. So, on the surface, the current developments involving Mr Ishihara et al may not appear to be of any particular significance. But the political context in which they are occurring definitely is noteworthy.

There is a perceived power vacuum at the top of government. Half a dozen prime ministers going through a revolving door in the space of as many years has done little to cement public trust in the stability of politics, and the stand-off now between the ruling Democratic Party of Japan (DPJ) and the Liberal Democratic Party (LDP) – that is trying to force another election – can only add to popular cynicism. The so-called "smack of firm government" tends to exert an allure amid political nihilism and this applies as much to rank-and-file politicians disillusioned with their leaders' lack of character as it does to voters in general.

Therefore, the danger of large-scale defections by MPs to parties led by more charismatic and electable personalities is by no means inconsiderable. Mr Ishihara is an out-and-out nationalist, best known outside Japan for co-authoring (with Sony co-founder Akio Morita) the book, *The Japan That Can Say No* (to America and others). Some would agree with Mr Ishihara that Japan needs to adopt a more mature and independent stance in its relations with the United States but his reputation for making erratic and often anti-foreigner statements makes him suspect in the eyes of many. Mr Kamei is a diehard conservative, best known (apart from fighting the left-wing Red Army group in Japan in the 1960s and 70s) for reversing former premier Junichiro Koizumi's plans to fully privatise the huge postal organisation. One of Mr Kamei's lieutenants indicated recently that he wants to see Mr Ishihara, 79, become the next prime minister.

What seems certain is that by the time the next Lower House election comes around – whether in the middle of 2013 (when it is scheduled) or earlier if Prime Minister Yoshihiko Noda calls a snap election to end the debilitating deadlock between the DPJ-controlled Lower House and the opposition-controlled Upper House – the political scene may have become much more polarised. Politics, like nature, abhors a vacuum and something (possibly sinister) certainly will be drawn into the one currently at the centre of Japanese politics – if leaders of the two main parties don't stop treating the whole thing like a game.

AFP

Lukewarm to reforms: *A woman working on carnival characters featuring French President Sarkozy (right) and Socialist Party's presidential candidate Francois Hollande, recently in Nice, south-eastern France. Both men appear to be dragging their feet as far as labour reforms are concerned*

Is France moving in the wrong direction?

If it is, at a minimum it is bound to delay the European reform process

By **KLAUS F ZIMMERMANN**

THE labour market reform packages recently announced in Italy and Spain were long overdue, but they are setting these countries onto the right track for a more prosperous future. That is to be welcomed as a net plus for all of Europe. Against that backdrop, it is all the more regrettable that France, under a presumable president Francois Hollande, would move in the opposite direction. It would seek to reverse the already timid reforms which Nicolas Sarkozy managed to put through during his term.

If the Socialist Party's candidate for the French presidency is indeed elected and follows through on his announcements, he risks his country being viewed rather quickly as assuming the mantle of the pre-Mario Monti Italy.

Yes, Monsieur Hollande has paid lip service to former German Chancellor Gerhard Schroeder's labour market reforms, which the latter launched well over a decade ago. These measures which Germany implemented have shown that unemployment can be driven down, even amid a global economic crisis and even in a high labour cost economy.

But Mr Hollande does not seem to grasp that relying on raising taxes even further was precisely not the path chosen by the German Social Democrats, his ideological soul mates.

At the core, Mr Schroeder grasped that the public sector's share of GDP could not be elevated any further for the economy to grow again.

In fact, Germany's Social Democrats launched and executed a gutsy social and economic experiment. They demonstrated that parties on the left could very well do the right thing to restructure and re-dynamise a national economy, by trimming benefits and reducing the state's role in the economy. If anything, that is the lesson Mr Hollande should embrace, especially given that the public sector's share in the French economy is considerably higher than Germany's.

Instead, he is opting for a French special path, claiming in effect that economic laws, as they apply elsewhere, do not do so in France.

That is all the more regrettable as a France moving in the wrong direction, a France that wants to reopen negotiations over the EU's fiscal pact and a France that does not correct its past choices, at a minimum is bound to delay the European reform process. Growth and jobs will arrive commensurably later. At worst, it could threaten to paralyse the ECB, which in many ways now is the true engine of European integration.

Such a turn of events would be doubly regrettable as, in an unprecedented case of cross-border interaction, Nicolas Sarkozy recently embraced the German approach to economic and social affairs on French television. Chancellor Angela Merkel, for her part, is breaking with past protocol, declaring her readiness to campaign with the current French president on helping him get re-elected.

Anybody who knows the ups and downs of Franco-German history will recognise that this is a high risk gamble. But in a year where the French and the Germans approach the 50th anniversary of their Treaty of Friendship, the best evidence of the closeness in relations would be if Monsieur Hollande, if elected, rethought his policy path.

Recently, even the World Bank, under the aegis of Bob Zoellick rather a critic of German economic policy, has unequivocally stated that countries such as France are driving up their labour market costs too much in the light of an ever shorter numbers of hours worked and the overly generous time off which they provide.

In France's case, it goes well beyond an eight-week vacation period. With good reason, the World Bank declares this strategy as not sustainable in a world economy that is marked by ever more cross-border competition.

Pain

The worst thing about Mr Hollande's pronouncements is that they raise expectations in the French population which are likely to be sorely disappointed. For all of his justified criticism of the financial industry, it certainly is not the root of France's lack of competitiveness. And blaming the banks certainly does not make it any more responsible fiscally to bring the retirement age back down to 60 years, as Mr Hollande intends to do.

And if he looked at the choices made by Germany's Social Democrats a good decade ago, he would understand that they did not choose their approach lightly. These reforms were, and some of them still are, wrenchingly painful.

But there was no alternative. A high standard of living has to be earned, not just claimed.

For that same reason, in today's Europe, the battle is certainly not over becoming more "German". Saying so betrays a profound misunderstanding of global realities, in particular the competitive pressures emanating from a rapidly integrating global economy.

If one can blame the Germans for one thing, then it is that they have shown the willingness needed to adapt. The Germans can possibly be described as Europe's most global economy due to their export orientation and the successful labour market reforms. That, in my mind, is the true – and only relevant – form of German leadership.

The longer the French wait to get on board of what is not a German, but a global vision for Europe, the worse certainly for France and the worse as well for all of Europe.

But count on the reform-oriented Italian and Spanish governments not to let any future opportunity go unused where they can stress that they are rapidly moving way ahead of France.

They have already gained the edge in terms of labour market flexibility and, one would hope, soon enough on economic dynamism.

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THE BOTTOM LINE

Disability: a tale of the US budgetary quagmire

THE US Social Security's disability programme is a political quagmire – and a metaphor for why American spending and budget deficits are so difficult to control. The numbers are too big; the details, too complicated; and the choices, when faced, too wrenching. President Obama's new budget, estimated at US$3.5 trillion or more, will raise all these problems. Experience suggests that little will be done to rein in long-term spending and deficits.

Social Security's disability programme opens a window on this larger paralysis. Created in 1956, more than two decades after Congress authorised Social Security, the programme was initially seen as a natural complement to coverage for retirees. Through sickness or accident, some workers had to retire early. They, too, deserved protection. For many years, the costs were modest. But in recent decades, they have exploded.

Consider. In 2010, Social Security's disability programme cost US$124 billion plus another US$59 billion for Medicare (after two years, disability recipients automatically qualify for Medicare). This exceeded US$1,500 for every US household. For the past two decades, disability spending has increased at a 5.6 per cent annual rate, compared with 2.2 per cent for the rest of Social Security. As a result, disability represents nearly one in five dollars of Social Security spending, up from one in 10 in 1988.

All these facts come from a fascinating paper by economist David Autor of the Massachusetts Institute of Technology. The disability programme, Autor writes, is a "central component of the US social safety net" but doesn't help "workers with less severe disabilities" to stay in the labour force. (By law, recipients can't be employed because disability is defined as the inability to work.) This means Social Security collides with the 1990 Americans with Disabilities Act, which aimed to keep the disabled in jobs.

Guess which prevails. One programme, Social Security, pays the disabled not to work; the other, the ADA, simply encourages their work. Money wins. In 1988, 4 per cent of men and 2 per cent of women aged 40 to 59 received disability benefits. By 2008, the men's rate was almost 6 per cent and the women's, 5 per cent.

Autor attributes disability's expansion mainly to liberalised, more subjective eligibility rules and to a deteriorating job market for less-educated workers. Through the 1970s, strokes, heart attacks and cancer were major causes. Now, mental problems (depression, personality disorder) and musculoskeletal ailments (back pain, joint stress) dominate (54 per cent of awards in 2009, nearly double 1981's 28 per cent). The paradox is plain. As physically gruelling construction and factory jobs have shrunk, disability awards have gone up.

ROBERT SAMUELSON

For many recipients, the disability programme is a form of long-term unemployment insurance, argue Autor and his frequent collaborator Mark Duggan of the University of Pennsylvania. Benefit applications surge when joblessness rises. From 2001 to 2010, annual applications jumped 123 per cent to 2.9 million. On average, recipients start receiving payments at age 49 and keep them until 66, when they switch to Social Security's retiree benefits.

The case for overhaul seems overwhelming. Tougher eligibility standards would protect the genuinely disabled but limit benefits for others. Don't hold your breath. For starters, any crackdown could become a public-relations disaster. Many recipients command sympathy. With low skills, jobs prospects are poor. Nor are they rolling in money; the average payment is about US$14,000 a year.

The disability programme "isn't in crisis", says the Center on Budget and Policy Priorities, a liberal think tank. Presidents Carter and Reagan tried to tighten eligibility. They failed. Indeed, the backlash against Reagan's effort led Congress to relax the rules in the ways that now expand awards. High unemployment worsens the timing.

Lawyers would also resist change. The Social Security Administration initially rejects two-thirds of applications, but about half of these are appealed by lawyers and other advocates before administrative law judges, where the approval rate is between 60 and 75 per cent. In a series of well-reported stories, *The Wall Street Journal's* Damian Paletta showed that the system is open to abuse. But it's also lucrative. Lawyers and other advocates are entitled to 25 per cent of back benefits up to US$6,000 per case. Their total payments approach US$1.5 billion annually.

The larger budget quagmire now comes into focus. What the federal government does is so vast that it suffocates informed debate and political control. The built-in bias for the status quo reflects the reality that the various parts of government are understood, defended and changed mainly by those who benefit from their existence. However strong the case for revision (and it is powerful here), it is tempered by political inertia. What's sacrificed is the broader public good. The quagmire is of our own making. – *The Washington Post Writers Group*