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JAPAN: REGIME CHANGE IN THE “LOST DECADE”

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JAPAN: REGIME CHANGE IN THE “LOST DECADE”

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submitted in partial fulfillment  
of the requirements for the Degree of  
Master of Philosophy

Lingnan University

2005

I declare that this is an original work based primarily on my own research, and I warrant that all citations of previous research, published or unpublished, have been duly acknowledged.

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Tang Suk On, Fiona  
2005

## ABSTRACT

### JAPAN: REGIME CHANGE IN THE “LOST DECADE”

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Master of Philosophy

The shift in both the political and economic situations of Japan in the post-1993s caught the attention of observers because the abrupt changes were unparalleled in other Organization for Economic Cooperation and Development (OECD) countries. Politically, a single conservative party had dominated Japan's electoral and government spheres in a way unmatched in any other industrialized democracy two-to-one majorities over the next largest party; complete control of all cabinet posts; and a relatively large influence of government over the economy. Economically too, Japan's rapid growth had also been without parallel and had put it at the head of the countries called the “Asian dragons”. The national growth rates of Japan were also double those of other OECD countries in the postwar period; labour productivity in manufacturing and industry was far greater; unemployment and inflation were dramatically lower; saving rates of people remained consistently higher; and overseas investments and holdings exploded more dramatically. All these successes had shocked the rest of the world.

However, the loss of the dominance by the LDP and the end of the high growth of Japan's economy in the early 1990s contributed to what many Japanese have come to call the 'lost decade' and resulted in serious debates over the political and economic direction of Japan.

This thesis uses a qualitative research methodology. A theoretical model of regime change will be used to analyze the political and economic shift of Japan.

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## Abbreviations:

DPJ	Democratic Party
DSP	Democratic Socialist Party
FEFTCL	Foreign Exchange and Foreign Trade Control Law
FIL	Foreign Investment Law
HC	House of Councilors
HR	House of Representatives
JCP	Japan Communist Party
JNP	Japan New Party
JNP	Japan Renewal Party
JSDP	Japan Self-Defense Force
JSP	Japan Socialist Party
KDD	International Telegram and Telephone
LDP	Liberal Democratic Party
LP	Lineral Party
LTCI	Long-term care insurance
MAFF	Ministry of Agriculture and Forestry
MITI	Ministry of International Trade and Industry
MOF	Ministry of Finance
MSD	Medium-sized-district
NLC	New Liberal Club
NTT	Nippon Telegraph and Telephone
OECD	Organization for Economic Cooperation and Development
PAFTAD	Pacific Trade and Development Conference

PBEC	Pacific Basin Economic Council
PECC	Pacific Economic Cooperation Council
PR	Proportional representative system
SNTV	Single non-transferable vote
SDPJ	Social Democratic Party
UN	United Nations
USDA	United States Department of Agriculture
VER	Voluntary export restraint



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## **Chapter One**

### **Main theme of this Study**

#### **1. Introduction**

In the 1990s Japan's political economy was sharply different from what it had been two or three decades earlier. Thirty-eight years of electoral dominance by the Liberal Democratic Party (LDP) had ended with the party's internal fragmentation. The early 1990s seemed to have finally brought vindication to the perennial losers – the opposition parties. In 1989, the LDP lost an election and control of the House of Councilors (HC) of the Japanese Diet (Japan's national legislature). This was followed in 1993 by the LDP losing control of the House of Representatives (HR), and by the first non-LDP government since the party's formation in 1955. In July 1993, an eight-party coalition supplied Japan's first non-LDP prime minister since 1955.

Although the LDP reemerged as the nation's largest party and regained cabinet control following elections in 1996, it was not the same party it had been, nor did it enjoy any of its once sweeping dominance (Pempel, 1993, p. 175). Economically, the changes were equally striking. Four decades of unprecedented growth from the early 1950s until the end of the 1980s came to an end with the simultaneous collapse of both stock and land prices, the collapse of numerous financial institutions, and at least \$600 billion in unrecoverable loans (Pempel, 1998, p.212).

The shift in both the political and economic situations of Japan caught the attention of observers because the abrupt changes were unparalleled in other Organization for Economic Cooperation and Development (OECD) countries in the postwar period. Politically, a single conservative party had dominated Japan's electoral and government spheres in a way unmatched in any other industrialized democracy two-to-one majorities over the next largest party; complete control of all cabinet posts; and a relatively large influence of government over the economy. Economically too, Japan's rapid growth had also been without parallel and had put it

at the head of the countries called the “Asian dragons”. The national growth rates of Japan were also double those of other OECD countries in the postwar period; labour productivity in manufacturing and industry was far greater; unemployment and inflation were dramatically lower; saving rates of people remained consistently higher; and overseas investments and holdings exploded more dramatically. All these successes had shocked the rest of the world.

However, the loss of the dominance by the LDP and the end of the high growth of Japan's economy in the early 1990s contributed to what many Japanese have come to call the 'lost decade' and resulted in serious debates over the political and economic direction of Japan.

This thesis's research questions, therefore, are (i) to examine the extent to which change has really occurred in the 1990s and (ii) to find out whether the change that Japan underwent in the 1990s can be considered as a 'regime change' (by utilising a theoretical model of regime change). The definitions of 'regime' and 'regime change' will be discussed in more detail later in this chapter, but the starting point will be the definition that the “regime consists of all those arrangements that regulate the way in which the demands put into the system are settled and the way in which decisions are put into the effect. They are the so-called rules of the game, in the light of which actions by members of the system are legitimated and accepted by the bulk of members as authoritative” (Easton, 1957, p.392). The working model of 'regime change' includes three main pillars, namely the domestic political institutions, public policy paradigm and socio-economic coalition. Detailed examination will be put on the description and analysis of changes happening in these three main pillars in Japan.

This thesis uses a qualitative research methodology. A theoretical model of regime change will be used to analyze the political and economic shift of Japan. I will analyze the content and context of the changes of Japan through a literature review from materials including books, journals, newspapers and internet sources in order to clarify the political and economic changes of Japan. Qualitative Historical-Comparative research approach will be used, as the Historical-Comparative research is suited for questions in which combinations of

factors produce a specific outcome. It is also appropriate for comparing entire systems, and to study long-term social change. Gobin (1998) states that the historical - comparative approach allows us to analyse such changes and justifies a broader scope. Comparison, having been considered initially an original and interesting approach with marginal status, is now beginning to be seen as an essential tool for generating knowledge. The comparative analysis by placing it within the historical context helps to generalize the knowledge in the present-day context through the study of past or particular time frame in the past.

This research uses a historically-grounded comparative approach to examine the historical pre-conditions that underpinned the formation of LDP one party dominance regime, and then contrasts them with the conditions shaping the new coalition government regime of today. Given that the overall rules of the game in regimes are very different in the pre-1990s and post-1990s periods, the change of rules of the game ultimately generate the new relationships and structures of regime. Going beyond the comparative approach typology to place it within a strategic vision by placing emphasis on three components in the regime - the political institutions, the socio-economic coalition and the public policy paradigm - could draw a clear picture of the extent of regime change in Japan. With the guidance of the regime change model, a more comprehensive picture on the changes of Japan could be presented.

In this thesis, the remainder of this chapter introduces the purpose of my research, the different levels of analysis and the importance of the concept of “political regime”, the literature review on the political system and political regime and, most importantly, the theoretical framework of regime changes. The second chapter discusses the political institutions of Japan from the post-war period to the early 2000s, focusing on the period from LDP dominance to the LDP-led government. The third chapter focuses on explaining the changes of the socio-economic conditions of Japan. The fourth chapter introduces the public policy paradigm and its changes in Japan in those two particular periods of time. The final chapter is the conclusion which summarizes my whole research. The references of my research are attached at the back.

## **2. Purpose of the research and levels of analysis**

There have been many scholars writing on the Japan's political and economic development since the World War II, especially discussing the dominance of the LDP in Japan for 38 years and the recession in Japan's economy since the early 1990s. However, the discussion often lacks a theoretical framework as a core structure for analysis. There is a need for a systematic approach to analyze the changes of the Japan's political and economic development.

As stated by Goldstein (1999, p.76), a level of analysis is a perspective of investigation based on a set of similar actors or processes that suggests possible explanations to "why questions". Level of analysis can be divided into three levels – individual, national and international level. In this research, I will focus on the national level of analysis, which is concerned with the change in core elements of the political regime in Japan. The core elements of the regime would be elaborated later in this chapter. Before moving on to examining whether Japan has undergone a change in "political regime", the difference between political system and political regime should be addressed first.

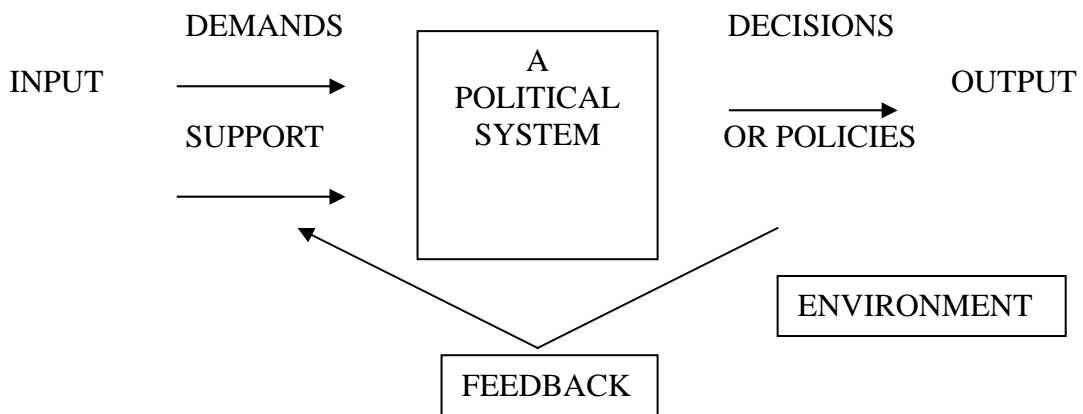
## **3. The literature review on the importance of political system in political science**

When considering "political regime", since the term is so ambiguous and difficult to define within clear boundaries and scopes, it is to a certain extent mixed up with the concept of political system. In common sense, system should include input, process and output, but the definition on what is "political system" is more complex and should need more explanations of the meaning. Through the discussion of the meaning of a "political system", it is possible that the correlations between "political regime" and "political system" could be explored.

The most authoritative author regarding the political system may be Easton, who wrote an article entitled the "An Approach to the Analysis of Political Systems" (1957). He argued that if "we hold the system of political actions as a unit before our

mind's eye, as it were, we can see that what keeps the system going are inputs of various kinds. These inputs are converted by the processes of the system into outputs and these, in turn, have consequences both for the system and for the environment in which the system exists" (Easton, 1957, p.384). *The formula is very simple and also very illuminating: inputs – political system or processes – outputs.* Please refer to the following Figure 1. It is a model regarding the approach to the study of political life.

Figure 1: An analysis of political system



Political systems have certain properties; they contain (1) Properties of identification; (2) Inputs and outputs; (3) Differentiation within a system; (4) Integration of a system.

The properties of identification distinguish a political system from other social systems, and we must be able to identify it by describing its fundamental units and establishing the boundaries that demarcate it from units outside the system. The properties of identification include units of a political system and the boundaries. The units are the elements of the system, while the boundaries were defined by all those actions more or less directly related to the making of binding decisions for the society; every social action that does not contain of this characteristic will be excluded from the system and thereby will automatically be viewed as an external variable in the environment (Easton, 1957, p. 385).

The input of a system include demand and support (as shown in Figure 1), As Easton (1957, p.387) stated “the reason why a political system emerges in a society at all – that is , why men engage in political activity – is that demands are being

made by persons or groups in the society that cannot all be fully satisfied.” The demand of a political system may rise from internal and external forces. External force means that the international environment encourages the domestic actors in a nation to react, while internal force means the political relationships of the members themselves may change as a result of dissatisfaction stemming from these relationships. Suffice it to say, the demand as a major type of input of political systems constitutes a significant part of the material upon which the system operates.

Inputs of demands alone are not enough to keep a political system operating. The input of demand should be matched with support in the system so that the demands could be satisfied or conflicts in goals composed. The support of one party to another party means that A acts on behalf of or when it orients itself favorably toward B’s goals, interests and actions. It may consist of actions promoting the goals, interests, and actions of another person. Support of a political system should be taking place in the three areas: which are the political community, the regime and the government (Easton, 1957, 400).

The meaning of supporting and non-supporting of political community turned on whether there was sufficient mutual identification among the members of the system for them to be able to work together as a political community. Thus in any political system, the degree of being one group feeling and to the extent that the members of the system identify one another as a part of this unit such as territoriality, kinship, or citizenship, we would say that they are putting in support for the political community.

Political regime relates to some rules, norms, principles, arrangements and institutions that govern the rules of the game. However, since the concept of political regime is still quite large, it is difficult to identify what are the most important sets of arrangements and institutions and, most importantly, how the changes in these sets contributed to the “regime change” of the research focus.

Regarding the government, if a political system is going to be able to handle the conflicting demands put into it, not only must the members of the system be prepared to support the settlement of these conflicts in common and possess some consensus

with regard to the rules governing the mode of settlement; they must also be ready to support a government as it undertakes the concrete tasks involved in negotiating such settlements; they must also be ready to support a government as it undertakes the concrete task involved in negotiating such settlements (Easton, 1957, p.396).

#### **4. The literature review on the importance of regimes in political science**

As we have mentioned beforehand, regime can be divided into two levels of analysis – the international level and the national level.

It should be noted that the definitions of “regime” in the literature have been quite ambiguous and most of them have just defined as a set of rules, norms and principles, arrangements and institutional matters that governed the society and contributed to the overall harmony and cooperation of the socio-political economy. Puchala and Hopkins (1983, p.256) stated that a regime is an attitudinal phenomenon. Behaviour follows from adherence to principles, norms, and rules, which legal codes sometime reflect. But regimes themselves are subjective: they exist primarily as participants’ understandings, expectations or convictions about legitimate, appropriate or moral behaviour. Keohane and Kye (1977, p.19) defined regimes as “a set of governing arrangements” and include “networks of rules, norms, and procedures that regularize behaviour and control its effects”. Haas argues that a regime encompasses a mutually coherent set of procedures, rules and norms (Ernst, 1980, p.403). Krasner (1983, p.112) also defined a regime as “implicit or explicit principles, norms, rules and decision-making procedures around which actors’ expectations coverage in a given area of the society” and stated that a fundamental distinction must be made between principles and norms on the one hand, the rules and procedures on the other. Principles and norms provide the basic defining characteristics of a regime. There may be many rules and decision-making procedures that are consistent with the sample principles and norms. Principles are beliefs of fact, causation, and rectitude. Norms are standards of behaviour defined in terms of rights and obligations. Rules are specific prescriptions or proscriptions for action. Decision-making procedures are prevailing practices for making and implementing collective choice. This usage is consistent with other recent



formulations.

In fact, it must be understood that regimes are not short-term or temporary arrangements that will be easy to change with every shift in power of interests. Keohane points out that a basic analytic distinction must be made between regimes and agreements. Agreements are *ad hoc*, often “one-shot”, arrangements. The purpose of regimes is to facilitate agreements. Jervis (1982, p.371) argued that the concept of regimes imply not only norms and expectations that facilitate cooperation, but a form of cooperation that is more than the following of short-run self-interest. Similarly, regime-governed behaviour must not be based solely on short-term calculations of interest. Since regimes encompass principles and norms, the utility function that is being maximized must embody some sense of general obligation.

At the international level, it is noted that the importance of international regime in explaining the state behaviour has arrested attention starting from the 1970s. Young (1980, p.331) stated that “rising interest in the concept of international regime in the 1970s is much like that accorded to international system in the 1950s”. As Haggard and Simmons (1987, p. 498) argued, “over the last ten years, international regimes emerged as a major focus of empirical research and theoretical debate within international relations”. It has become intellectually fashionable to speak and write about regimes. Some authors have identified international political and economic conditions that may affect political regimes, including colonial legacies (Collier, 1982), and economic dependence (Bollen, 1983). The earlier interpretation on the meaning of “international regime” could be found from the article written by both Young (1980, p.346) and Ernst (1980, p.553), in which they defined “regime” as a “norms, rules and procedures agreed to in order to regulate an issue-area”. Puchala and Hopkins (1983, p.61) argued that “a regime exists in very substantive issue-area in international relations, wherever there is regularity in behaviour, some kinds of principles, norms or rules must exist to account for it”, and regimes constrain and regularize the behaviour of participants, affect which activities are legitimized or condemned, and influence whether, when, and how conflicts are resolved.

At the national level, Easton (1957, p. 383) argued that regime served to channel political action within a system and give it meaning. A description of a regime must

include a characterization of the major principles it upholds and each regime has a set of elites who are the practical actors within it, for instance, the government of nation-states are the prime official members. More concretely, regime participants are most often bureaucratic units or individuals who operate as parts of the “government” by creating, enforcing or otherwise acting in compliance with norms. Fishman (1990, p.41) stated that “a regime may be thought of as the formal and informal organization of the centre of political power, and of its relations with the broader society. A regime determines who has access to political power, and how those who are in power deal with those who are not”. His definition has implications for the issue of regime type, which involves making distinctions among concepts such as democracy, totalitarianism, and authoritarianism. Actually, authors have used the term of “regime” to describe the particular constitutional system of a government (O’Donnell, 1973; 1978; 1988) and many countries have been regarded as undergoing a kind of regime change, for instance Turkey, Sierra Leone and Sri Lanka changed from democratic to semi-democratic regimes. O’Donnell (1973, p.6) stated that the political regime will change due to the socioeconomic conditions; other authors, for example Vanhanen (1990, p.193), argued that besides socioeconomic conditions social-structural conditions such as societal homogeneity, low or moderate inequality, a relatively even distribution of power among societal groups are factors that contributed to the changes and towards democracy (a regime type). It is noted that since Japan had already been changed to a democracy after 1945, it has not undergone such a kind of regime change during the period under study here and thereby Japan cannot be regarded as a regime change in the way we apply this definition into our study. There are many subtypes in the democratic system, as argued by Huntington (1968, p. 298), the character of political institutions also affect political regime, for instance, under democratic regimes, institutional features that promote stability and compromise are widely important to facilitate the persistence of democracy.

At the national level, regime can be divided into different domains. For the regime related to constitutional order, most typical regime change is from the authoritarian domain to the democracy domain; the typical domains for which regime is related to the relationship between political and economic sectors are from corporatism to non-corporatism, or from mercantilism to liberalism. Last but not

least, for the regime that relates to the party system, which will be used in this current research, the focus on the national level will be from single party dominance to coalitional government.

## **5. The literature review on regime change in political science**

Moving now to the literature on regime change, Krasner (1983, p. 318) pointed out *changes in rules and decision-making procedures are changes within regimes* provided that principles and norms are unaltered. He cited an example regarding the increase of private bank financing in United States during the 1970s but this only showed a change in the rules but it did not mean that there has been a fundamental change in the regime. *Changes in principles and norms are changes of the regime itself*. However, whether the changes are in rules and decision-making procedures or in principles and norms as well is difficult to define and can be subject to subjective interpretations. Such assessments are never easy because they cannot be based on objective behavioral observations. And Krasner (1983, p.330) stated that finally if the principles, norms, rules, and decision-making procedures of a regime become less coherent, or if actual practice is increasingly inconsistent with principles, norms, rules, and procedures, then a regime has weakened. In sum, change within a regime involves alterations of rules and decision-making procedures, but not of norms or principles; change of a regime involves alteration of norms and principles; and weakening of a regime involves incoherence among the components of the regime or inconsistency between the regime and related behaviour.

Other scholars have also written on the concept of “regime change”. Puchala and Hopkins (1983, p. 125) stated that regimes change substantively in at least two different ways: one preserve norms while changing principles; the other overturns norms in order to change principles. Regimes may change qualitatively because those who participate in them change their minds about interests and aims. They called it as *evolutionary change*, because it occurs within the procedural norms of the regime, usually without major changes in the distribution of power among participants. Such change, undisturbing to the power structure and within the regime’s “rules of the game”, is rather conceptual and characteristic mainly of

functionally-specific regimes. By contrast, *revolutionary change* is more common. Most regimes function to the advantage of some participants and to the disadvantage of others. The disadvantaged accept regime principles and norms because the costs of noncompliance are understood to be higher than the costs of compliance. The evolutionary and revolutionary regime change provides insight on the possible explanations of regime change in Japan.

Besides, theoretical approaches to regime change and variance were also explained. Haggard and Simmons (1987, p. 492) stated that the regime development and change can be grouped into four categories: structural, game-theoretic, function and cognitive. These categories are not mutually exclusive, and the most persuasive interpretations are likely to draw from more than one theoretical tradition. In fact, most of the structural, game-theoretic and functional theories of regimes are state-centered, presuming unified rational actors, even if the assumption is related to gain explanatory leverage (Keohane, 1984, p.97). The structural explanations represented by hegemonic stability theory, it showed that how international conditions define the possibilities for cooperation. Structuralists argue that we cannot infer national policies from intentions because structures tend to “persuade” state behaviour toward a common quality of outcomes even though the efforts and aims of agents and agencies vary (Keohane, 1984; Waltz, 1979). Haggard and Simmons (1987, p.503) stated that the theory of hegemonic stability offers the most parsimonious and widely employed explanation of regime dynamics; it links regime creation and maintenance to a dominant power’s existence and the weakening of regimes to waning hegemony.

This part has revealed the definition of political regime, what contributes to the regime changes, the types of regime change and theories in explaining regime change. In fact, it should be noted for the purposes of this study that the definition of regimes would based on the general definition that regime is a sets of rules, decision-making procedures, principles, and norms. However, as the literature showed, changes in rules and decision-making do not result in a regime change but only result in a change within a regime, whereas the changes in principles and norms do contribute to a change of a regime. Therefore, the literature review provides insights into the basis for judging whether Japan has changed in terms of its rules and

decision-making procedures or norms and principles.

The definition of political regime has been revealed from the literature, but, still, it is rather difficult to distinguish three parts: (1) How to assess whether the changes are “rules and decision-making procedures” and “principles and norms”? (2) Will the changes in “rules and decision-making procedures” result in the changes of “principles and norms”? (3) What are the institutional arrangements that relate rules, decision-making procedures, principles and norms? Specifically, what are the elements, arrangements and institutional settings of a regime? The previous literature reviews are not able to provide all the answers on specifying some core elements of a regime; however, they are obviously essential in the current study.

Pempel (1992; 1997) has given insights on the core elements within a regime and has provided some discussion on regime and the Japanese political economy. As one of the few scholars to apply the concept of “regime” to the Japanese case, moreover, the ideas of Pempel can provide insight for the theoretical development of the current study. He stated that regime involves a sustained fusion between the institutions of the state and particular segments of the socio-economic order. Moreover, the regime is the expectation that specific components of state and societal power will be mutually reinforcing and that public actions will reflect the character of this interaction. In short, a regime’s character will be determined by the societal coalition on which a state rests, the formal powers of that state, and by the institutionalization and bias of the public policies that result.

More specifically, the core domains constitute a domestic regime. The major elements constituting a regime according to Pempel, are 1) the character of the socio-economic coalition that rules the country; 2) the political and economic institutions through which power is acquired and exercised; and 3) the public policy profile that gives broad political direction to the nation. Each has its own analytic autonomy, yet at the same time, all three interact with one another in reinforcing and overlapping ways. In combination, they constitute Japan’s political economic “regime”. The consequence of change is almost certain to be the creation of a new regime that will be based on revised socio-economic coalitional arrangements, modified political institutions, and uncharted directions for public policy.

He further analyzed the concept of “regime”. He stated that a regime involves a sustained fusion among three things: political institutions, particular segments of the socio-economic order, and a specific mixture of public policies. Within democracies, the character of this fusion – that is, the nature of a regime – is mediated in important ways by a regularized pattern of political and economic interactions that are synergistic in character: all three traits of a regime feed into and reinforce one another. In this sense, regime equates with a particular social order.

Pempel (1998) in his book defines clearly the nature of regime and the core elements of a regime which are essentially important in drawing up the theoretical framework. The term “regime” refers to a middle level of cohesion in the political economy of a nation-state. A regime is far less sweeping and comprehensive than a “political system” (which has been explained in previous section), “constitutional order” or “economic system”. At the same time, the character of a regime usually transcends several specific administrations, presidencies, cabinets, and is more comprehensive than any time-bound economic direction such as deficit-finance, balanced budgets or loose money, and a regime is composed of three essential elements: political institutions, public policy paradigm and socioeconomic coalitions. These three overlap and reinforce one another; they resemble the three legs of a tripod that may collapse when any one is removed. They interact in complex ways, developing and responding to a discrete internal logic.

A stable regime consists of mutually reinforcing relationships among three sets of variables: the major political institutions, public policy and the socioeconomic coalitions. More tangibly, such regimes are characterized by the broadly consistent direction in which the country proceeds (its public policy), by the groups that empower – and are empowered by – this movement (its socioeconomic alliances), and by the regularized organizations of decision-making through which it channels and manifests such power (its political and economic institutions). All three components are constantly reinforcing and sustaining one another through “virtuous circles” or “positive synergies”. Predictability becomes more problematic and equilibrium is undermined in the forces of regime change. Such a spiral must be corrected by internal adjustments; if the action and responses are not able to tackle the internal adjustments, the regime will eventually collapse, and a new differently

ordered regime may emerge.

The concept of “regime change” is a good model to apply in the study of post-1980s Japanese politics, which has been a transitional period. The regime change model helps to outline the main pillars for the analysis and enables us to compare the extent of whatever changes have occurred between the two different regimes.

## **6. Main Theoretical Framework of Thesis**

The current research would like to focus on whether Japan has undergone a regime change in the 1990s. Drawing from the insights of the literature review, the conceptual flow of the regime model could be defined in the following aspects:

- a. Regime is different from political system (Easton, 1957, p.389)
- b. Regime is a set of rules, decision-making procedures, norms, principles and the so-called rules of the game
- c. Regime also refer to all the arrangements and institutions that regulate the way in which the demands put into the system are settled and the way in which decisions are put into effect.
- d. Regime includes primarily political institutions, public policy paradigm and socioeconomic coalitions. The change in these aspects of a nation means the change in regime in that nation.
- e. The core elements of regime interact in complex ways, developing and responding with each other, thus forming a mutually reinforcing relationship. The change in socio-economic coalition will lead to the change of political institutions and public policy, and the other way round is also true.
- f. The regime change of a nation does not happen in a vacuum, the external environment / international environment would create impacts on the change of a regime, and will create change in the core element of a regime, which would trigger the change of another core element.

In the research, regime is defined as the whole system of political institutions/ organisations, socio-economic coalitions and the structure-supporting elements,

whose power has secured extensive obedience, stable and successive control in a society. This indicates that regime has, on one hand, a static, institutionalized character, and on the other, it involves a kinetic phase. In other words, when a regime as a system of the elements is formed, an interaction among the elements comes into existence, which induces a change in the formula of the system, which can in turn cause regime change. If the regime changed, it would be conceivable that the behavioral pattern of the actors, including that of a state, will undergo change. And a change of the regime has an influence upon the life of millions of people, creating a spectrum of feelings from terror to hope and creating new rules of the game.

This study focuses on ‘the process of change’ and ‘the structure supporting the process of regime change’ in Japan. Needless to say, we should undertake comparative efforts to make the definition of regime and regime change more meaningful. The research on the regime change of Japan in this thesis can be one of the significant positive cases in the development of the literature in this field.

Please refer to Figure 2 for the theoretical framework of a regime change.



Figure 2: A theoretical framework of a regime change

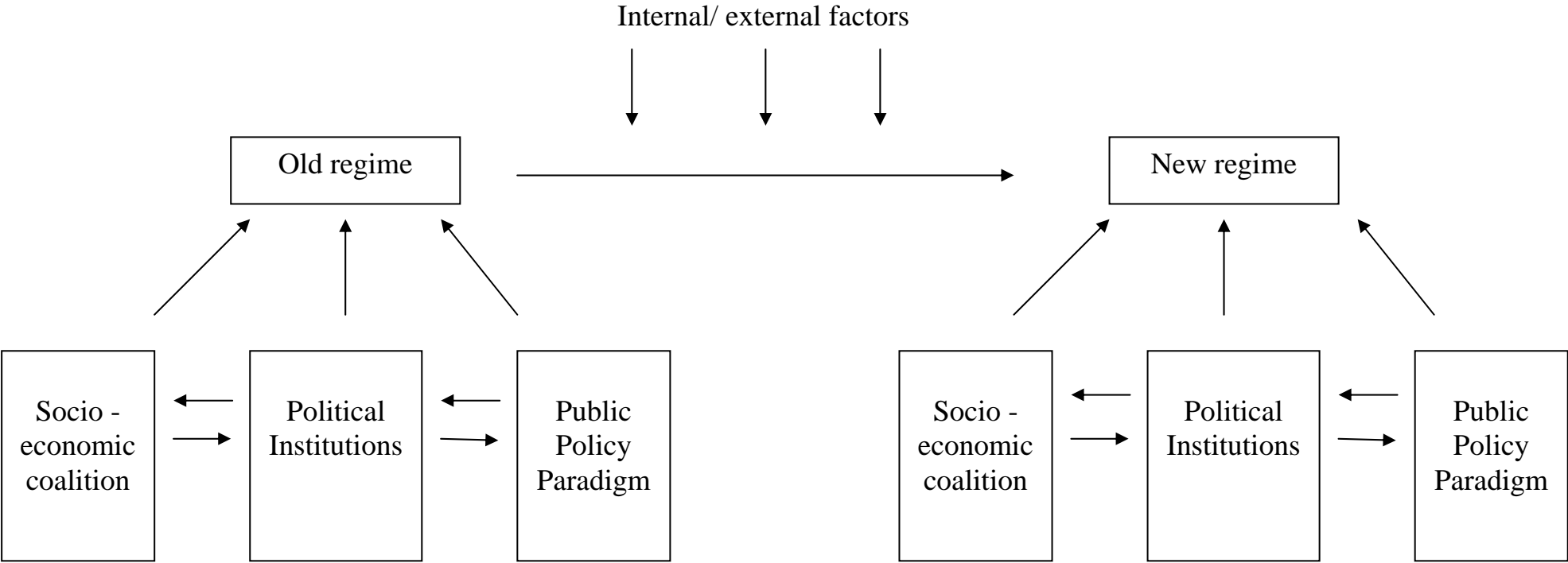


Figure 2 is the theoretical framework which I have drawn from the literature review of the concept of regime and how it could be used to examine the possible regime change in my research studies. In the theoretical model, it is assumed that the changes in the three main pillars will result in changes of the nation into a new regime. Furthermore, all three pillars are interlocking with each other and thereby one change will lead to change of another. Without the changes in all three pillars, there will not be a new regime formation. In the following chapters, the detailed changes in each pillar will be discussed, and the interrelations between them will be explained.

In the research, although it is possible to identify the changes in the three pillars between the 1955-1993 period and the 1993-early 2000s period, it is a limitation that the analysis of the dynamic interactions between these three pillars cannot be covered to the same extent within this framework. Constraints of space and time also mean that a number of issues, such as why the first anti-LDP government emerged in 1993, why those former LDP ‘enemies’ were willing to ally with the LDP after 1994, and why the Murayama government failed to maintain its power in 1996, cannot be covered in detail in this research. They will be good research questions for future research.

## **CHAPTER TWO**

### **Political Institutions in Japan: Comparison between pre-1993 and post-1993 periods**

Pempel (1997, p.347) argued that the Japanese political economy is indeed undergoing transformations. These are occurring at what might be thought of as a national level of politics and economics, one far deeper than the ever-recurring shifts in personalities and party strengths, but far less comprehensive than the kinds of totalistic shifts involved in a transition of authoritarianism to parliamentary democracy. The party system domain will be used to test out national level regime change.

The year of 1993 was a critical year for the development of the political system in Japan since the political system of Japan underwent a great change in that year. From 1955 to 1993 was a LDP one party dominance regime with close connection with the American government in its foreign policy and heavy reliance on the close relationships with the agriculture sector, bureaucracy and the business sector in maintaining the stability of the government. The loss of the dominance rule of the LDP in 1993 in the HR election was a sudden change of its long-standing control of the political system. As discussed in chapter one, the theoretical framework suggested by Pempel (1997, 1998) has argued that a change in the political institutions was one of the factors contributing to the change of the regime of a nation. In this chapter, the extent of the changes of the political institutions of Japan will be discussed in detail with explanations on why such a change happened in 1993.

Political institutions – the typical subject of political science - are considered both in the sense of rules of the political game and as political organizations acting within that framework. Our main concerns in the research will be political parties, electoral rules, elections and parliaments, as well as the electoral, policy, coalition and strategic criteria used by political actors constrained by institutional rules.

As Lindblom (1994, p. 58) has argued that in all the political systems of the world, much of politics is economics, and most of economics is politics. Clark (1998, p.9) too suggests that although the economy is usually viewed as an economic institution, it also performs important functions in achieving the political goal. In the case of Japan, we can find that the economic stagnation was one of the strong causes for regime change. Therefore, in the following research, the political economy, including political institutions and the economic situation, will also be covered.

In the last decade, at least two essential elements of the old regime have been that undergoing change. First, on the political level, the 38 years of dominance by the Liberal Democratic Party (LDP) ended with the party's internal fragmentation, its loss of a parliamentary majority and executive control, the eight-party coalition that made Japan's first non-LDP prime minister since the party's formation in 1955 and the introduction of a new electoral system for the HR of the Diet in 1994.

Second, on the economic front, Japan's seemingly endless string of achievements from the early 1950s until the end of the 1980s came to a halt as a result of the bursting of the economic "bubble" and the simultaneous collapse of stock, land prices and a number of substantial financial institutions. These represented a dramatic turnaround from the economic success that had previously happened in the national economy.

Based on this background, the chapter will start by outlining the pre-1993 political institutions by discussing the major political parties in Japan, particularly the nature and formation of the LDP. In explaining the LDP one-party dominance regime, the factionalism politics, the electoral system and why there was a monopoly by the LDP in elections for so long in Japan would also be examined. After discussing the pre-1993 political institutions in Japan, analysis will focus on the new regime from 1993 to the present, which began in 1993 with the splits in the LDP. It will be argued that the major change in political institutions in Japan was a change from LDP One-party dominance to a government of LDP-led coalitions. Events leading to why there was such a change will be discussed and the factors contributing to such a coalition rule will be raised. In describing the changes in the LDP one-party dominance regime in the post-1993 period, the Japan's new electoral system,

including the rules that regulated the formation of smaller parties, issues related to dual candidates and identical ranking, restrictions on fundraising activities, and how the new electoral laws affected the factional politics in Japan. All these rules of the game changes contributed to a regime change in Japan.

## ***1. Political institutions in the pre-1993 period***

### *1.1 Major political parties in Japan*

The six major political parties in pre-1993 Japan were the ruling Liberal Democratic Party (LDP), the Japan Socialist Party, the Democratic Socialist Party (Minshato), the United Social Democratic Party (Shakai Minshu Rengo), the Komeito, the Japan Communist Party, while temporarily there existed the New Liberal Club (Shin Jiyu Kurabu), an offshoot of the LDP, rejoining the ruling party in year 1986 (Kishimoto, 1988, p97).

The LDP is a confederation of conservative forces that functions essentially as a coalition of factions (which will be discussed later). It was the national-level ruling party of Japan throughout the entire the period between 1955 and 1993. Among the political systems of non-Socialist developed nations, Japan is unique in comparison with other western democratic countries, for except for a short period after World War II when a Socialist-centered coalition government ruled Japan in 1947-1948, conservative parties have dominated. After November 1955, when two conservative parties (Democratic and Liberal parties) merged to form the LDP, conservative rule was concentrated within that single organization and the LDP maintained its rule as the governing party for thirty-eight years (Hrebennar, 2000; Bouissou, 2002). Since 1955, although it sometimes lost seats, the conservative LDP held a lion's share of the seats in both the HC and the HR for 38 years.

The left-and right-wing factions of Japan Socialist Party (JSP), were reunited in October 1955, the same year that the conservatives joined together as the LDP. It was the second largest party and the number one oppositional party in the pre-1993 Japan political system. At the time of the two mergers the JSP was approximately half the size of the LDP and thoroughly dominated the opposition forces. However, a number

of reasons appeared from the 1960's (including a rigid platform, internal disputes, and the emergence of competing opposition parties), which resulted in the gradual decline of the JSP (Kishimoto, 1998; Curtis, 1999; Hrebenar, 2000; Masumi, 1995; Bouissou, 2002).

The Democratic Socialist Party, formed in January 1960, and the United Social Democratic Party, formed in March 1978, were both moderate progressive parties established by former right-wing JSP members who split away from the JSP (Kishimoto, 1998). The Komeito (also known as Clean Government Party), formed in 1964 as the political arm of the Soka Gakkai, a Buddhist lay organization, is usually classified as a centrist party. Hrebenar (2000, p.191) claimed the Komeito's policy positions were "humanitarian socialism and middle-of-the-road reformism". Since the mid-1980s these three moderate opposition parties, along with the increasingly pragmatic JSP, have been cooperating in national elections (Kishimoto, 1998; Masumi, 1995; Bouissou, 2002).

The Japanese Communist Party (JCP) was established in July 1922 but operated underground until it was legalized after WWII. It reorganized itself in 1958 on the principle of "self-reliance and independence", with close interactions and connections with China and the Soviet Union. Its policy stances are for formulating a flexible, nonviolent platform and adopt a positive stance toward parliamentary government. However, due to its ideology of being communist-oriented, it was implicitly undermined by the United States government and it remained at odds with the other opposition parties, becoming increasingly isolated both at home and abroad. Therefore, in spite of being highly organized and reliably-financed, the party has not expanded since the mid-1970s (Kishimoto, 1998, p177).

The New Liberal Club (NLC) was formed due to the LDP's inadequate response to the side effects of rapid economic growth and to some major changes in the international environment, as well as disenchantment over the ethical problems raised by incidents like the Lockheed scandal. As a result, in June 1976, it was the first time for a group of dissidents to split off to form their own party outside the LDP.

The above six were the major political parties in Japan in the LDP dominance regime in the pre-1993 period. There are a number of reasons that contributed to the dominance of the LDP. Regarding the oppositional parties, besides the strong stance of the JSP, some new parties continued to form and hold anti-LDP feelings, but since there were too many personality clashes and conflicts within and between parties, it was difficult to form strong oppositional forces against LDP, for pre-1993 the concept of “form/ break-up reform” was limited – it applies much better to post-93 period. No single party could threaten the LDP hegemonic dynasty.

### *1.2 The nature and formation of LDP*

One scholar has written, “the dynamics and the logic of the political system would be different in the future from what they were during the period of so-called ’55 system, the long era of LDP dominance that began in 1955 when the conservative parties came together to form the LDP and the right and left wings of the socialists party united” (Curtis, 1999, p.45). The LDP’s record is certainly unprecedented among the ruling democratic parties in the world.

The decision of the conservatives to merge was facilitated by two external forces. One of these was pressure from “corporate Japan” – what is called the financial world, or *zaikai*, including the Federation of Economic Organization (Keizai Dantai Rengokai), the Japan Federation of Employers’ Association (Nihon Keieisha Dantai Renmei), the Committee for Economic Development (Keizai Doyukai), and the Japanese Chamber of Commerce and Industry (Nihon Shoko Kaigisho). These four groups had called for the merging of the conservatives as early as 1952. This aspect also provided in the latter period for the formation of the so-called interdependent “iron-triangle” relationships. Historically, there have been extremely close ties between conservative parties and corporate Japan. This tight relationship of cooperative efforts between the government and the *zaikai* has been popularly known as “Japan Incorporated”. Businesses, banking and financial institutions are the top contributors to the LDP. Besides, real estate and construction industries were the second-largest donors of political funds. The great dependence on big business resulted in motivations for the *zaikai* to “force” them to articulate

clearly on the conflicts and rivalries (Hrebenar, 2000) and thus was instrumental in uniting various conservative elements into a single party (Jain, 1997, p. 251).

The reasons why the business world, especially the banking community, has continued to support the LDP more than other parties lies in the fact that the LDP has helped to provide the most favourable environment for rapid economic expansion. Japanese postwar economic development has relied on the various levels of government and especially the private sector. To invest in modern equipment and factories, corporations had to borrow money from banks and other financial institutions. With these financial means available, Japanese industries have been able to scrap archaic facilities and build new and sophisticated plants, often equipped with the most modern robots. By means of such heavy borrowing, Japanese companies have been able to produce reliable products that have been very competitive in the international market.

The second factor promoting the merger of the conservatives was the advance of the progressive political forces within Japan. The increasing dominant power of the opposition Right and Left Socialists in the lower house elections in the early 1950s posed a threat to conservative parties that if they were still divided into two parties, their position would be sooner or later overwhelmed by the socialist parties. In line with this argument, Bailey (1996, p.261) stated that the reuniting of the two wings of the Socialist Party in October 1955 pushed the two conservative parties to effect a similar arrangement, while Kishimoto (1988, p.179) argued that the common sense of urgency over the imminent reunification of the Japan Socialist Party and the enthusiasm for permanent conservative rule (LDP party president will become prime minister) were crucial.

Burks (1991) has argued that this LDP can not be described either as liberal or democratic, nor even a party. As a conservative party, the LDP supports a free capitalist system as the foundation of democratic government and of economic and social activity. The LDP's ideology and policies have also been seen as covering diverse opinion embraced by the party (factionalism), but by utilising the principles of nonconfrontation and compromise the LDP was able to retain cohesion and remain dominant.



## ***2. LDP one-party dominance in the pre-1990s period***

### *2.1 Monopoly of LDP in elections*

In the LDP dominance regime, the monopoly of the LDP can be shown by the seats that the LDP held in the National Diet. The Diet and its operation have been fully stipulated in the Constitution made by the United States after the WWII. According to the Constitution, the Diet was Japan's legislative organ, and according to the article 41 of the Constitution, it was the "sole law-making organ of the State" and "the highest organ of state power" (Kishimoto, 1988, p.50-51). The Diet comprised of the HR and the HC, both of which would consist of elected members, representatives of all the people.

The number of Diet seats for the HR was 512 and 252 for the HC. The Constitution prohibits any person from holding a seat in both houses simultaneously. A full term for office for members of the HR is four years, but it will be cut short when the house is dissolved by Cabinet. The term of office for members of the House of Councillors is six years; a regular election for half the members is held every three years under a separate electoral system.

According to the Constitution, the most important powers vested in the Diet are those of enacting laws, deciding on the budget, to approving treaties, to designating the prime minister and passing resolutions of confidence and non-confidence. Other important powers include the initiation of constitutional amendments. In a comparison of the two houses, the Constitution stipulated that the HR takes precedence over the HC.

The prime minister is designated by each house separately in plenary session. Under Japan's party system, the leader of the party with a majority in the Diet – or more precisely, in the HR – is designated prime minister. Therefore in order to analyze the monopoly of LDP from 1955 to 1993, it was possible to observe the number of seats in the HR that had been occupied by LDP in that period of time. Please see Table 1.

Table 1: Results of House of Representatives elections since the 1958 election (the major five political parties)

	LDP	JSP	Komeito	DSP	JCP
<i>Year 1958 (Seats won)</i>	<u>287</u>	<u>166</u>	<u>N/A</u>	<u>N/A</u>	<u>1</u>
<i>Percent of Vote</i>	<b><u>57.8</u></b>	<u>32.9</u>	<u>N/A</u>	<u>N/A</u>	<u>2.6</u>
<i>Year 1960 (Seats won)</i>	<u>296</u>	<u>145</u>	<u>N/A</u>	<u>17</u>	<u>3</u>
<i>Percent of Vote</i>	<b><u>57.6</u></b>	<u>27.6</u>	<u>N/A</u>	<u>8.8</u>	<u>2.9</u>
<i>Year 1963 (Seats won)</i>	<u>283</u>	<u>144</u>	<u>N/A</u>	<u>23</u>	<u>5</u>
<i>Percent of Vote</i>	<b><u>54.7</u></b>	<u>29</u>	<u>N/A</u>	<u>7.4</u>	<u>4.0</u>
<i>Year 1967 (Seats won)</i>	<u>277</u>	<u>140</u>	<u>25</u>	<u>30</u>	<u>5</u>
<i>Percent of Vote</i>	<b><u>48.8</u></b>	<u>27.9</u>	<u>5.4</u>	<u>7.4</u>	<u>4.8</u>
<i>Year 1969 (Seats won)</i>	<u>277</u>	<u>140</u>	<u>25</u>	<u>30</u>	<u>5</u>
<i>Percent of Vote</i>	<b><u>48.8</u></b>	<u>27.9</u>	<u>5.4</u>	<u>7.4</u>	<u>4.8</u>
<i>Year 1972 (Seats won)</i>	<u>271</u>	<u>118</u>	<u>29</u>	<u>19</u>	<u>38</u>
<i>Percent of Vote</i>	<b><u>46.9</u></b>	<u>21.9</u>	<u>8.5</u>	<u>7.0</u>	<u>10.5</u>
<i>Year 1976 (Seats won)</i>	<u>249</u>	<u>118</u>	<u>29</u>	<u>19</u>	<u>38</u>
<i>Percent of Vote</i>	<b><u>41.8</u></b>	<u>21.9</u>	<u>8.5</u>	<u>7.0</u>	<u>10.5</u>
<i>Year 1979 (Seats won)</i>	<u>248</u>	<u>107</u>	<u>57</u>	<u>35</u>	<u>39</u>
<i>Percent of Vote</i>	<b><u>44.6</u></b>	<u>19.7</u>	<u>9.8</u>	<u>6.8</u>	<u>10.4</u>
<i>Year 1980 (Seats won)</i>	<u>284</u>	<u>107</u>	<u>33</u>	<u>32</u>	<u>29</u>
<i>Percent of Vote</i>	<b><u>47.9</u></b>	<u>19.3</u>	<u>9.0</u>	<u>6.6</u>	<u>9.8</u>
<i>Year 1983 (Seats won)</i>	<u>250</u>	<u>112</u>	<u>58</u>	<u>38</u>	<u>26</u>
<i>Percent of Vote</i>	<b><u>45.8</u></b>	<u>19.5</u>	<u>10.1</u>	<u>7.3</u>	<u>9.3</u>
<i>Year 1986 (Seats won)</i>	<u>300</u>	<u>85</u>	<u>56</u>	<u>26</u>	<u>26</u>
<i>Percent of Vote</i>	<b><u>49.4</u></b>	<u>17.2</u>	<u>9.4</u>	<u>6.4</u>	<u>8.3</u>
<i>Year 1990 (Seats won)</i>	<u>275</u>	<u>136</u>	<u>45</u>	<u>14</u>	<u>16</u>
<i>Percent of Vote</i>	<b><u>46.1</u></b>	<u>24.4</u>	<u>8.0</u>	<u>4.8</u>	<u>8.0</u>
<i>Year 1993 (Seats won)</i>	<u>223</u>	<u>70</u>	<u>51</u>	<u>15</u>	<u>15</u>
<i>Percent of Vote</i>	<b><u>46.1</u></b>	<b><u>24.4</u></b>	<b><u>8.0</u></b>	<b><u>4.8</u></b>	<b><u>8.0</u></b>

SOURCE:

1. Kishimoto, K. (1988). *Politics in modern Japan: development and organization*. Tokyo: Japan Echo Inc.
2. Hrebenar, R. J. (1992). *Japan's party system*. US: Westview Press.
3. Rothacher, A. (1993). *The Japanese power elite*. US: St. Martin's press Inc.

The monopoly of the LDP can be found in its election results in the HR since almost half the seats in every election in the whole period were occupied by it and at the same time the party leader could become the prime minister. Moreover, from the table, it is also possible to find out that there were not any one of the opposition parties was able on its own to exert any serious electoral threat to the LDP, for even Japan's four former opposition parties – the Japan Socialist Party, the Japan Communist Party, the Democratic Socialist Party, and the Komeito – were seen to flounder helplessly under the complete domination of the ruling Liberal Democratic Party (LDP).<sup>1</sup> From its founding in 1955 until 1989, the LDP won every national election and selected every prime minister and cabinet member. Other democracies have had similarly dominant parties, but none of them come close to the LDP in terms of its longevity in power and its complete dominance of the political scene. Therefore, in the pre-1993, it was the LDP one-party dominance regime in Japan.

## *2.2 Reasons for the LDP dominance in the regime of pre-1990s*

### *2.2.1 Electoral system in Japan*

Some scholars have argued that the long dominance of the LDP reflected a strong relationship with the nature of the nation's electoral laws and its political party system. The results of one-party dominance regime are not only based on cultural and historical factors but also on election systems that are conducive to the evolution of the one-party system, in which the LDP was holding power.

Herbenar (2000, p. 152) stated that the pre-1993 one-party dominance regime was characterized by an election law based on multi-member parliamentary districts, chronic mal-apportionment, and a straitjacket campaign activities restriction law. The net effect of these laws operated to keep Japan in a one-party-dominant position. The electoral law had been one of the crucial factors contributing to the success of the LDP. The two most distinguishing characteristics of the old Japanese election system in the LDP dominance regime were “multi-member districts with single non-transferable voting (SNTV) and unequal apportionment” (Wada, 1996, p.3).

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<sup>1</sup> These parties are called the “former” opposition parties because in 1993 three of them lost their opposition status when they became part of a coalition government.

Curtis (1999, p.140) stated that “this terminology emphasized the nature of the ballot on which to write the name of his or her preferred candidate. The vote is single entry in that the voter can cast a ballot for only one candidate, even though several are elected to the Diet in the district. It is nontransferable in that there is no formula for transferring votes that are cast for candidate to another”.

It was also commonly called the medium-sized-district (MSD) electoral system (in contrast to fewer candidates elected in each district than under the prefecture-wide “large-size-election-district system” from 1900 to 1920, and more than the “small-size-election-district system” used for two elections in the early 1920s). Thus in MSD systems, the proportion of the vote that one needs to win a seat is not fixed, but varies with the competitive situation in the constituency, and thus varies from constituency to constituency.

Under the electoral system that was used until 1993 the 511 members of the HR were elected from 129 constituencies. The district magnitude ranged from two to six, with most districts having between three to five seats. Voters cast a single ballot regardless of the number of seats in their district. The ballots were counted in each district. For instance, in a district with four seats, the top four vote-getters would be elected as Diet members (Abe, 1990). This kind of combination of multimember districts and single-entry ballots means that any party seeking a Diet majority (256 seats in a 511 member in HR) had to run multiple candidates for the same party to target their campaigns at voters who supported their party rather than voters who did not. For example, Hrebentar (2000) stated that the relationship between constituency magnitude and LDP success was also clear in the 1990 General Election (HR). From the election result, we can find that the fewer seats elected in a district, the better success rate the LDP achieved. The LDP won the seat in the single-seat district; 62.5% of the seats in the 2-seat districts; 57.9% in the 3-seat districts; 53.5% in the 4-seat district; 52.6% in the 5-seat district and 33.3% in the 6-seat district. As the largest party in Japan, the LDP got crucial advantage in the election system in the LDP one-party dominance regime.

On the other hand, this had in fact created great competition among LDP candidates (Curtis, 1999, p.87). There was intra-party competition among LDP

candidates because the party itself did not control the campaigns of its candidates. Relations between candidates and the party organization were rather like a franchise system. Perhaps, another important factor that contributed to the success of the LDP in the election system in the one party dominance regime was its strength in raising funds from big business for its candidates. Multi-member districts with SNTV are used in every level of elections in Japan, which are sometimes called “elections Japanese style” and have often been considered as a “bad system”.<sup>2</sup> The combination of multi-member districts with SNTV forces LDP politicians to compete against each other in the same district. Since they must espouse the same party’s policy, ideological differences become irrelevant and they are led into pork-barrel politics, **which means** government spending that is intended to benefit constituents of a politician in return for their political support, either in the form of campaign contributions or votes. Typically it involves funding for government programs whose economic or service benefits are concentrated in a particular area but whose costs are spread among all taxpayers. Public works projects and agricultural subsidies are the most commonly cited examples. Moreover, in the election they argue they need more money to compete with each other. This is typical politicians’ logic to explain that Japanese “money politics” is not their own invention. Many journalists and political scientists, including Ishikawa (1981, 1984, 1990), Sakagami (1990), and Iwai (1991) have also accepted this logic.

Sims (2001, p. 323) argued that LDP, either as a party or through its factions and Diet members, acquired enormous funds – far beyond the amounts which rival parties could raise. It is believed that the funds from all sectors of businesses could be originated from the personnel networks of particularly factions leaders (depending on the relatively strength of the factions and their influential power in LDP). These funds generally increased as Japan grew richer and government expenditure accelerated. Hrebendar (1992, p.6) and Pempel (1998, p.184) stated that in the 1980s between 40 million yen (for a well-established Diet member) and 200 million yen (for a newcomer) was needed to ensure election to the House of Representatives; and that by 1992 a LDP Diet member would require 140 million yen for routine activities in a non-election year. Therefore, the LDP’s strength in raising funds from big business

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<sup>2</sup> Ray Christensen, *Ending the LDP Hegemony- Party Cooperation in Japan*, Honolulu: University of Hawai’i, 2000

sectors for its party is one of the decisive elements in the game of election.

### *2.3 Factional politics in LDP*

Wada (1996, p.75) stated that the electoral rules explain some important features of Japanese political economy, including LDP's factional politics and the stable LDP government.

One of the key characteristics of the LDP's part system has been factionalism (Hrebendar, 2000; Bruks, 1991; Curtis, 1999; Rothacher, 1993; Reed, 2003, Richardson, 1997; Hane, 1996; Koichi 1988; Masumi, 1995; Wada, 1996, Sims 2001; Allinson, 1997; Thayer, 1969; Baerwald; 1986).

Hrebendar (2000, p.106) stated that "it is impossible to discuss the LDP and its dynamics without a thorough examination of its factional nature." In fact, the LDP is an alliance of factions in which the greater part of the party's affairs were conducted by the factions. Most importantly, the factions play a crucial role in the resolution of party personnel matters: the selection of the party president (who also usually serves as the nation's prime minister), the appointment of cabinet ministers, and the naming of important party officials. The party offered a known name, financial support, and other assistance to its endorsed candidates, but each candidate was in effect an independent political entrepreneur with his own local organization and his marketing strategies.

There were several major factions with the LDP by the early 1990s. The largest and most powerful in the early 1990s was the Obuchi faction. Originally led by Tanaka Kakuei, who was arrested in 1976 on suspicion of having accepted bribes from the Lockheed Corporation, the faction was then led by Takeshita Noboru who later became the prime minister of the country after Nakasone Yasuhiro (Kishimoto, 1988, p. 223), before handing over Obuchi Keizo.

Another important group within the LDP is the Kato, or former Miyazawa faction. This group, led by Miyazawa Kiichi for much of the past several decades, was an heir to the faction led by Ikeda Hayato, who directed Japan's period of high

growth during the 1960s. After Ikeda's death, the faction was temporarily taken over by Maeo Shigesaburo and then by Ohira Masayoshi. After Ohira's death, Suzuki Zenko had taken over the faction but decided to step down from the premiership in 1982 to Nakasone. Subsequently in 1987 he finally transferred his factional leadership to Miyazawa, who then passed it on to Kato Koichi in 1998 (Kishimoto, 1988, p177).

Nakasone Yasuhiro, who became the prime minister from 1982 to 1987, led his own faction, which had about 67 members, but since his faction was so small in size he was unable to run either the party or the affairs of government by himself. He simply never could have become party president or head of the government without the support of the Tanaka and Suzuki factions. In effect, the two supporting factions had a near-veto power over policies advocated by Nakasone. It was strongly criticized as the "Tanaka-Sone Government" (Kishimoto, 1988, p.165), which exerted sweeping influence in the political system in the pre-1990s period.

Rothacher (1993, p.378) argued that the upkeep of a faction is a costly enterprise. A faction leader is expected to contribute a large amount of money to his MPs' election campaigns and to the maintenance of their secretariat and constituency support organizations (koenkai). The strength of a faction is determined by (a) the number of faction members returned in an election (which may in turn depend on the faction's campaign budget, (b) the successful election of newcomers endorsed by the party and financed by the faction, (c) the recruitment of independent MPs and (d) the poaching of MPs from other factions.

In face of the factional nature of the LDP, the abilities of individuals, no matter how capable, have little if any influence over whether they will receive key political positions. To this degree, the factions of the LDP form a "system" within the LDP politics and each faction maintains its own offices and hold meetings at regular intervals. Thereby, these factions are, in essence, parties within a party, and hence the LDP must be viewed as composed of several parties. As different with other opposition parties, factionalism allows the LDP politicians to have wide range of flexibility to serve different groups without the strong barriers of political ideology.

Kishimoto (1988, p.143) stated that, originally party factions were groupings of Diet members of similar background bound by the ties of obligation and debt that have long played an important role in Japanese political custom. The LDP factions were massive profit-making organizations that dominated not only the election of party presidents but also the president-cum-prime minister's appointment of cabinet ministers and party officials. They could affect even the outcome of national elections through their influence over the recognition of official candidates and through the allocation of campaign funds and other assistance.

Different faction leaders received funds from large businesses in order to support their campaigns. Each faction leader has very close links with different bankers and business leaders in order to strengthen their fund-raising ability; therefore very close cohesion was formed among the business sector and political party of the "Iron triangle". This is where the electoral system discussed in the previous section came into play. It was of the interests of each faction within the LDP to strive to gain more support for their own candidates instead of for the party as a whole.

Jain (1997, p.17) stated that the LDP has been a truly "grand coalition" and "department store", which could represent a large spectrum of interests of the Japanese society (Okimoto, 1988). Therefore, the LDP captured wide range of support by different factions. Internally, factionalism also acted for the restricted use of power was also a consequence of its own division (this will be discussed in more detail in later part). Simply speaking, even though the LDP was dominant in the political system, it involved different factions that barred it from uniting towards a common aim and goal, except the common interest of being one united party (Hrebenar, 2000; Curtis, 1999; Reed, 2003). Therefore, any attempt to achieve a significant change of policy might end up in factional opposition with the LDP. This helped prevent the internal disaffection (Jain, 1997, p.69) and maintain the stability of the LDP government in Japan for 38 years long.

#### *2.4 Other reasons for LDP dominance*

Besides the monopoly in the election system, Sims (2001, p. 342) also stated



that “the main cause of the high economic growth rates which marked the 1950s and ’60s, and to a lesser extent the 1970s and 1980s was effective planning and guidance by Ministry of International Trade and Industry (MITI)... .. and the LDP was able, at the least, to claim credit for providing stability and not restricting economic vitality”. This helped the LDP’s success in winning more support than any of the opposition parties in every age-group, and at all educational and occupational levels (Editorial comment in Japan Echo, 1978). The sound economic performance in Japan after postwar recovery till the 1990s reflected that the government and the LDP were relatively stable and competent in comparison with the “united” or “unproven” opposition parties.

Another reason was the strong support for the party by a number of highly influential interest groups, especially the powerful agricultural sector and the majority of urban and semi-urban middle class voters developing since the nation’s rapid economic growth and raising affluence. The agricultural cooperatives were the pillar of the LDP’s hegemony. Bouissou (2002, p.152) argued that “the cooperatives were essential to control the rural constituencies, which were the LDP’s stronghold. They could get entire hamlets out to vote, not losing more than a few votes”. The role of the agricultural cooperatives is discussed in more detail in chapter 3.

In addition, it can be argued that, paradoxically, another internal factor was the LDP’s restraint in using its power excessively during the stage of dominance. Because of a traditional preference for consensus and a powerful common goal because of fear of a return to authoritarianism and aims to strive for economic prosperity after war, Japanese people in the post-war decades were uneasy about the government pushing through legislation against the strong opposition of the other parties. Therefore, rather than present its opponents with the opportunity to invoke arguments, the LDP often preferred to make a compromise. Consequently, “No fewer than 23 percent of the bills which it (the LDP) submitted to the Diet between 1950 and 1990 were withdrawn or postponed because of opposition, while 15 percent were amended” (Sims, 2001, p.338).

In line with the above underlying reasons, the long-lasting dominance of the LDP would result in poor results for the opposition parties, thus preventing them

from demonstrating that they were capable of governing the country. Intuitively, in spite of the sometimes only average performance of the LDP, the Japanese did not have confidence that the opposition party could perform better than the LDP and therefore the opposition party could not put their doctrine and ideology into practice. This situation became more serious and commonplace once the LDP had held power over a number of years (Sims, 2001, p.205). Besides the lack of experience in administration, another point was that the opposition parties seemed to be too weak against the LDP. Part of the reason was the opposition parties were also limited by the fact that they were perceived as representing particular interests. Sims (2001, p.340) argued that “to a lesser extent that Japanese Socialist Party (JSP) was tarnished by its close association – reflected in its choice of candidates – with the public-service unions, and the Democratic Socialist Party (DSP) by its links with private-sector unions”. The socialists also criticized the LDP as “monopoly capitalism” and occasionally fought for better wages for workers, but the JSP had never provided an economic blueprint for the nation (Jain, 1997, p.65). Moreover, the Japanese Communist Party (JCP) was founded on Marxist ideology and this created an adverse image amongst the Japanese, especially as the Japanese government wanted to keep good relations with the democratic United States. Other opposition parties were similarly either poorly organized or narrowly focused and therefore contributing to the prolonged rule of the LDP.

Last but not least, a more crucial factor was driven by the Cold War ideological differences between the US bloc and the Soviet bloc, representing capitalism and communism. The United States found that Japan was an important strategic ally and Japan found that the United States was an important protector in the postwar economic recovery. It was easy to understand that the United States would like to support a pro-US LDP and oppose a pro-Soviet JSP (Jain, 1997, p.231).

In the pre-1993 period which had been dominated by the LDP, there had been a number of opposition parties but the situations were that none of them could exert a threat to the LDP's position for various reasons. Within the structure of the LDP, it could be discussed in terms of factionalism, acting like a coalition government, but all the factions were quite restricted from separating since this would undermine their powers and interests. The electoral system was also designed in creating the

factionalism as well as the dominance of the LDP in that period of time. In relation to the political system of Japan, the so-called “Iron Triangle” or elite model were also discussed. The interrelationship of the three angles have been regarded as a unique feature of Japanese politics and its strong economic growth in the LDP dominance regime, but nevertheless also became associated with “money politics” which resulted in scandals.

In closing, this section has mainly employed a descriptive approach on the political system of Japan in the pre-1993 period in which LDP had been dominant. There had been a number of opposition parties but none of them could exert serious threat to the LDP’s position for various reasons. However, this situation was to change in 1993.

### ***3. Japan’s political institutions in the post-1993 period***

Japan’s political institution in the post 1993 period up to the year of 2004 can be called Single Party rule to LDP-led coalition.

#### ***3.1 One Party rule to LDP-led coalition***

The key difference between the pre- and post- 1993 regime is the shift from LDP one-party rule to LDP-led coalition. From August 1993 to April 1994, eight parties joined together to form the first non- LDP government in 38 years and promised to “break the collusive relationship between politicians, bureaucrats, and business (Nakano, 1998, p.291). This started the prologue of chaotic regime change from LDP dominance regime (1955-1993) to the first non-LDP Hosokawa, Hato and Murayama governments (1993 – 1996) and finally to LDP-led coalition regime.

In June 1993, the HR passed a no-confidence resolution against the LDP government headed by Miyazawa Kiichi, effectively putting an end to the LDP’s long reign which was subsequently sealed by the July general election (Shinoda, 1998, p.41). The prime minister who emerged at that time was the Hosokawa Morihiro of the Japan New Party (JNP). He had to lead an unprecedented coalition of eight political groups with a wide range of conflicting political agendas.

Mulgan (2003, p.175) argues that coalitions are a product of the need for working majorities in parliamentary Cabinet systems. Parties do not normally enter into a coalition if they can avoid it. But the starting in June 1994, even the LDP was only able to resume power by entering into a formal coalition agreement with two defectors from the anti-LDP coalition – the Socialist Party (JSP / SDPJ) and Sakigake. This new three-way coalition government lasted until the HR elections of October 1996, when a general election was held to choose a new 500-member HR. This was the first contest held under a sweeping electoral reform passed in 1994. Prime Minister Hashimoto Ryutaro's LDP made significant gains with 239 seats, but fell short by 12 seats of a majority needed to rule on its own.

As a result, Hashimoto sought to renew the previous three party-coalition (January 1996 to then) that he headed; however, his two coalition partners--the Social Democratic Party (SDPJ) and a tiny splinter group called Sakigake party--refused his overture, fearing that they would become irrelevant parties in an LDP-dominated coalition. Instead, the three parties agreed to form a loose alliance and cooperate outside the cabinet through frequent policy consultation. The SDPJ and the Sakigake party were excluded from Hashimoto's minority cabinet. The shortfall in seats saw the LDP continuing a parliamentary alliance with Socialists and Sakigake until September 1997, by which time it had attracted a sufficient number of HR members back into its ranks to regain a majority.

In spite of the restoration of its majority-party status, the LDP continued its cooperative relationship with the SDPJ and Sakigake outside the Cabinet until April 1998 when the Socialists and Sakigake pulled out of the alliance in order to underscore their identities as separate parties in the lead-up to the July 1998 HC election.

The LDP's propensity for forming quasi-coalitions during this period was influenced to some extent by its weakened position in the HC. Despite the LDP's majority in the HR, the number of seats it held in the HC fell to such a low level that it again pursued the coalition option, this time with the Liberal Party (LP), which was brought into the Cabinet in January 1999 (a combination that still fell short of a

majority of seats in the HC), followed by the “New Komeito”, which was formally incorporated into the coalition in October that year. In April 2000, the LDP and Komeito ended their coalition with the Liberal Party, but invited back into the coalition a group of defectors from the Liberal Party who had formed the Conservative Party (Hoshuto).

The results of the 2000 HR election have only served to entrench coalition politics further. The three ruling parties presented voters with a solid coalition front, with a clear choice between the tripartite alliance and a number of separate opposition parties. In June 2000, the ruling coalition of the LDP, New Komeito and New Conservative Party (NCP) won a comfortable majority. The ruling coalition, with a total of 271 seats, enjoyed the so-called perfect working majority in the HR. It commanded an absolute majority on all committees, in addition to monopolizing the chairmen’s post on all those committees. Therefore, political and economic change can only come from within the LDP for the moment.

In October, 2003, Prime Minister Koizumi Junichiro dissolved the HR after he was re-elected as the Liberal Democrat Party chief on September 20. The election was the first since Koizumi was named Prime Minister in April 2001. The major participants were the Liberal Democrat Party (LDP) and the Democrat Party (DPJ). The LDP retains strong support in rural areas and among older voters due to heavy subsidies in agriculture, while the DPJ has had greater support among youth and in urban areas. However, this has tended to favor the LDP, because sparsely populated rural districts have disproportionate weight in Japan's electoral system.

National newspapers concluded that the election benefited the Democrat Party (DPJ) more so than the LDP. The DPJ gained 40 more seats, making it the largest opposition party with a total HR membership of 177. Among those in the ruling coalition, only the New Clean Government Party (New Komeito) made gains, bringing its total HR membership to 34 from 31 members before the election.

The LDP failed to achieve an absolute majority by itself, with only 237 seats, which required it to maintain its coalition with the New Clean Government Party and the New Conservative Party. Senior politicians in the LDP attributed the results to

disenfranchisement among traditional supporters of the LDP, resulting in an increased dependency on the coalition. Some politicians in the LDP are concerned about the influence of the New Clean Government Party on LDP policy because of the dependency. This revealed that the LDP failed to capture abundant support from non-old agriculture sector in order to maintain its majority in the Diet after 1993, so it is risky or even impossible for the LDP to keep its status by not working with other parties and forming coalitions in the future.

The 2003 poll was unprecedented in the degree to which coalition candidates stuck to unified campaign pledges and the coalition parties cooperated in arranging combined candidates in particular constituency. Furthermore, the LDP's overall performance in the election meant that a continuation of coalition arrangements was necessary because of the loss of its clear majority in the HR. Please see Figure 1 for details.

Figure 1: The Checklist of Coalition Governments in the 1990s and early 2000s

<b><u>Prime Minister</u></b>	<b><u>Participating Parties</u></b>	<b><u>Dates</u></b>
Lower House elections, July 1993 Hosokawa	JSP, Shinseitō, Komeitō, JNP, DSP, Sakigake, Shaminren, Minkarien (Rengo)	August 1993 – April 1994
Hata	The above parties, not including JSP and Sakigake	April – June 1994
Murayama	LDP, JSP, Sakigake	June 1994 – July 1995
Upper House elections, July 1995 Murayama	LDP, JSP, Sakigake	July 1995 – Jan 1996
Hashimoto	LDP, JSP, Sakigake	January – October 1996
Lower House elections, October 1996 Hashimoto	LDP, (JSP and Sakigake) supported government but not in it	October 1996 – 1998
Upper House elections, July 1998 Obuchi	LDP, Liberal Party (Jiyutō)	January 1999 – September 1999
Obuchi	Above parties + Komeitō	September 1999 – April 2000
April, 2000 Mori	Above parties + Komeitō	April, 2000 - July, 2000

Upper House elections, July 2000 Mori	Above parties + Komeito	July 2000 - April 2001
April 2001 Lower House elections, Nov 2003 Koizumi	LDP + Komeito and New Conservative Party (NKP)	April 2001 – Nov 2003
Upper House elections, July 2004 Koizumi	LDP + Komeito	Nov 2003 – Sept 2005

### *3.2 Events leading to the July 1993 Election*

Members of Japan's HR are elected to four-year terms, and another election was not due until February 1994, but in 1993 the HR was dissolved as a result of the successful no-confidence motion against the Miyazawa government, only the second time since the formation of the LDP that a no-confidence motion had actually carried out (Jain, 1993, p.1073). The political reform that was being initiated the main issue that resulted in the no-confidence vote against the government. In the beginning of 1990s, social discontent reached a peak and the Japanese strove for a "clean" government and new political phenomenon.

The ever-increasing corruption in Japanese politics was one of the factors which resulting in the no-confidence vote. As discussed earlier in this chapter the post-war election system stimulated the competition between different members of the LDP and this serious competition within the same party led to a reliance on a large pool of money from the corporate and business. Elections were very much candidate-based rather than party-centered and policy-based. This led to the pervasive and much-criticised "money politics". In the second half of the 1980s and the beginning of the 1990s, several scandals involving LDP politicians were exposed, culminating in 1992, the Takeshita faction was the largest in the LDP and by far the most influential in Japanese politics. However, Takeshita's involvement in the Recruit scandal and Kanemaru Shin's resignation from the Diet in November 1992, due to his admission of receiving 500 million yen in illegal political contributions was

followed in March 1993 by another corruption scandal which further damaged the image and popularity of the LDP when the LDP kingmaker and former vice-president, Kanemaru, was arrested and faced trial on charges of evading taxes on his massive personal fortune, a large part of which he allegedly obtained through secret donations from construction contractors (Jain, 1993, p.1077).

The economic down-turn since 1990s and the LDP government's failure to tackle the situation effectively led the Japanese to ask for "clean" and "capable" new government. The burst of the economic "bubble" with the historically high unemployment rate, all these accelerated the urge for the change. Moreover, the campaign financing scandals, such as the Recruit Scandal, further undermined the popularity of the LDP.

The Japan New Party (1992) was the first one to challenge the LDP as a conservative opposition rival, in contrast to the mainly centre-left opposition challenges for most of the postwar period, but it was the defection of a large number of LDP MP's into the Japan Renewal Party (1993) and the New Harbinger Party (1993) that was the key event which ended decades of the LDP rule (Babb, 1999). Moreover, the oldest of these was the Japan New Party which was formed in May 1992 under the leadership of Hosokawa Morihiro, formerly an HC member from the Tanaka faction and governor (1983-91). In early 1993, Hosokawa's popularity began to increase and enjoyed a support rate of more than 10% (Jain, 1993, p. 1072).

The LDP maintained a majority of seats in both houses of the Diet from 1955 until 1989, when it lost its majority in the HC in 1989, getting only 36 seats, while the JSP won 46 seats. Therefore, in 1989, the LDP lost control of the HC.

However, in 1993, the LDP also lost its majority in the HR. Not only because the LDP lost many votes, but also because 3 more parties – the JNP, Sakigake and J.R.P emerged and captured massive votes in the expense of the LDP in which the JNP, Sakigake and JRP won a total of 103 seats. The LDP only won 223 seats of the 511 total, and was totally expelled from the core of power.

The early 1990s finally brought vindication to the perennial losers –opposition



parties. In 1989, the LDP lost an election and control of the HC of the Diet. This was followed in 1993 by defections of Ozawa faction from the LDP, by the LDP losing control of the HR, and by the first non – LDP government since the party's formation in 1955.

### *3.3 Japan's New Electoral System*

The rules of the game for the election system changed in the 1990s. First, traditionally that the election system was favorable for rural areas where the LDP had been particularly strong. However, since some of the population had shifted from the rural areas to urban areas, the Diet made some adjustments and redistributed some rural seats to urban seats. The adjustments made in December 1992 resulted in cutting out ten rural seats and added nine urban ones, thus reducing the total membership of the HR from 512 to 511 (Jain, 1993, p. 1081). As discussed, the vote from the rural areas is one of the main pillars for the LDP in elections. The redistribution of seats among rural and urban districts changed the election mechanism and damaged the advantageous position that the LDP had in the former election system in the pre-1990s period. It is no longer easy for the LDP to maintain its dominance in elections with the support of the agriculture sector.

Later on, the Japanese national legislature (Diet) passed electoral reform measures on three separate occasions. First, in March, 1994, bills were passed which changed the election system for the House of Representatives, altered campaign regulations, and created public subsidies for political parties. Two of these bills amended the existing legislation; two other bills created new laws. (Christensen, 1996, p.67).

The new Japanese electoral system is a hybrid of plurality and proportional representation (PR) system. In total, three hundred of the five hundred seats in the HR are allocated to each of three hundred new electoral districts, while the remaining two hundred seats are allocated by PR system. Japan was divided up into seven regional PR districts, and based on the population, each district elected from seven to thirty-three representatives. Voters selected parties, and seats were allocated to the parties based on each party's share of the vote in that district (Christensen, 1996, p.

51).

This kind of voting system created incentives for small parties to form coalitions to win the only one seat in each district. As Christensen (1996, p. 52) argued, “Voters will select one candidate in each district, and there will be only one victor in each district. These districts create strong incentives for small parties to merge or at least form electoral coalitions that have a chance of winning the support of half the electorate in each of these districts”.

Also, the proportional representative (PR) system actually encouraged the survival of the smaller size political parties since they were only need to get a part of the votes in order to secure one seat in the election. PR districts drastically reduced victory thresholds and gave the opportunities for small and minor parties. Thus the single-seat districts and the PR districts produced contradictory incentives since the single-member seats reduced the opportunities of the small parties to join but the remaining seats in PR election method could motivate the small parties to join. Three hundred seats are contestable only by parties large enough to attract nearly 50 percent of the voters in a district; the other two hundred seats can be won by parties that can get the support of only 3, 5, or 10 percent of the voters in a PR region. The rules of the game in the election system changed significantly. The situation is totally different from was it has been in the former SNTV of plurality electoral system, for the LDP could no longer be assured of hegemony in the new hybrid of plurality and proportional representation (PR) election system.

Candidates have larger chances to be elected in the HR and HC respectively. As the electoral rules allow candidates to run in the local single-seat districts and to be list on a party PR list in the same election (dual-listed candidate must run in local, single-seat districts that are within the bounds of the PR regional district in which they are listed). In addition to it, such dual-listed candidates can also be given identical numerical rankings on the PR list. If the dual-list candidate wins in his/her local district, then her name would be removed from the party list for the PR district since she has already been elected (Christensen, 1996, p.59). In return, it makes the election result more unpredictable and complicated.

The contradictory effects of the electoral system seemingly reducing and at the same time increasing the motivations of the small political parties to get elected (Christensen 1996, p.59), besides, the new Japanese election system also includes legal barriers to the electoral access of small parties. For instance, a party must win 3 percent of the vote nationwide to be eligible to win any PR seats. Another barrier exists for small parties if they want to register to be on the PR ballot in a district, they should meet at least one of the three following conditions: (1) in the most recent national election, the party received at least 2 percent of the nationwide vote; (2) the party has at least five sitting members of the HR and the HC combined; or (3) the party listed a sufficient number of candidates on its PR district list equal to at least 20 percent of the seats up for election in that district.

Besides some strict requirements, the law also requires a deposit of 600,000 yen per candidate which only refunded depending on the number of victors that the party has. If the party did not win any PR seats, it would lose its entire deposit (Christensen, 1996, p.67). Therefore, this law also encouraged parties to merge in order to get the entry qualification to the election.

The political reforms also placed additional restrictions on the fundraising activities of individual politicians. The added burden of these new restrictions is compensated for by (1) a new programme of national subsidies of political parties and (2) the relatively unfettered fundraising abilities of political parties.

The reforms attempt to channel political money into routes other than the traditional fundraising that resulted in money politics (Christensen, 1996; Stockwin, 2003; Mulgan, 2003; Hrebenar, 2000). The reform stipulated that each candidate is now allowed only one official fundraising organization. Corporations and other organizations can contribute only 500,000 yen in a calendar year to a politician's official fundraising organization and this fundraising activity would be completely banned after five years.

Corporations and other organizations would then be allowed to give money only

to political parties. In addition to it, only political parties are allowed to give money directly to candidates; this provision is designed to make it difficult for factional organizations to give campaign funds to their members (Christensen, 1996, p.63). Reporting thresholds were also lowered for most instances of political giving. An individual or organization's contributions to either a party or a candidate's official fundraising organization must be reported if such donations exceed 100,000 yen in a calendar year. Purchases of tickets to fundraising events must be reported if a person or organization purchases more than 200,000 of tickets at a single event.

On the other side, individual contributions to political parties and political organizations are encouraged. Such donations have been made tax deductible. In a calendar year an individual may give a total of 20 million yen to political parties and political fundraising organizations. An individual may contribute an additional 10 million yen a year as political contributions to other recipients (Christensen, 1996, p.67).

Moreover, the fourth set of bills provided for the strengthening of the penalties on misbehavior. The candidates, their family members, their office staff, and their campaign managers can all separately or jointly held responsible for any election campaign irregularities or illegal handling of political funds (Christensen, 1996; 1994; 2000; Cheol, 2001).

### *3.4 Effects of New Electoral Laws*

Although the laws were passed in 1994, the first opportunity for voting under these new arrangements did not come until 1996; HR elections were also held in 2000 and 2003. It was predicted initially that the changes of the electoral laws would result in the changes of the number of political parties exist. However, at the same time, as Christensen (1996; p.59) has observed, the rules of the game in Japan political system changed as "the electoral reforms increase the likelihood that coalition governments will become common. The party realignment that has occurred will make coalition governments much more common in Japan".

The reason was that assuming all things being equal, the new electoral system gave the largest party such a huge bonus of seats that the party should not need coalition partners to govern. However, the electoral reform and party realignment have split the LDP, and if two parties split the single-seat districts, it is likely that neither party will pick up a sufficient number of seats in the PR races to become a majority party. Coalition governments will therefore become more common under the new electoral system.

Another important implication of the new electoral system in the new regime was to end the money politics. It was found to be less effective in achieving this aim mainly due to two main reasons. First, the flow of money from business to political kingmakers could continue unabated since businesses would still be able to give money to both national and local party organizations. As the dominant party leader in that area, they will still control the local party chapters. Businesses will still be able to contribute funds to as many local party organizations as their favorite politician in every town, and neighbourhood of a candidate's election district (Christensen, 1994; 1996).

Second, business contributions that are given to national party organizations can still be allocated to influential politicians. A business donor need only specify informally that the funds contributed are to be controlled by a specific party member. That means the contribution of money to the party would be actually given to someone that the business has been supporting (Christensen, 1994; 1996).

Hrebenar (2000, p.80) stated that tickets for fund-raising "parti" events still offer politicians a loophole that allows them to hide the donors of some of their funds. Buyers of tickets for fund-raising parties of less than 200,000 yen do not have to be reported. The 1998 Political Funds Control Law (PFCL) report noted the significance of "parti" money generated for individual politicians. The biggest fund-raising "parti" of 1997 was held by the Mitsuzuka faction and produced nearly 3 billion yen for the faction. Other prominent LDP leaders also did well at such "parti" events, with nineteen of the top twenty two such events generating money for either LDP factions or senior LDP politicians. The Democratic Party generated more than 2.6

billion yen; Ozawa, leader of the Liberal Party, produced 1.6 billion yen; and the Sakigake got a little over 1 billion yen (Asahi Shimbun, September 11, 1998).

The electoral system seems to be not so effective in solving these problems of money politics. Also, the LDP had earlier controversially decided to allow the donations to continue despite legislation to the contrary, but Obuchi reversed the decision in the face of strong criticism from within the ruling coalition, especially New Komeito, and opposition among the general public. It is obvious that the LDP took into consideration the likely effects on the administration's political foundation and the next HR general election. Aiming to gain back public support and popularity, on September 11, 1999, Prime Minister Obuchi, who was the LDP president, officially announced that the “LDP has decided to ban political donations from business corporations and organizations to individual politicians funds-management organizations from next year.” The announcement was delivered during Obuchi's face-to-face debate with opposition leaders (Daily Yomiuri, September 11, 1999).

It is clear that the electoral reform was one of the means used by the Hosokawa government to make it more difficult for the LDP to return to power again. If we assume this was the main purpose of the electoral reform, we can count this is a successful reform. The new election system leads to the change of the rules of the game as well as the election mechanism in Japan. The hybrid of plurality and proportional representation system (PR) system encouraged the formation of new political parties and mergers. The PR system makes it easier for small parties to survive in the election and leads the LDP tended to look to different coalitions of interest groups support as a way to compete against their party colleagues, which greatly damaged the advantage of the LDP in the election mechanism. The reform creates a more competitive party system, with the potential to lead to an alternation of parties in power. We can see the introduction of a new electoral system precipitated the collapse of the one-party dominant regime in its initial impact, but, as for what its impact is going to be over the long term, it seems to have generated pressures both for party consolidation and fragmentation and make it difficult for the LDP to gain majority on its own.

### *3.5 The impact on factional politics*

It was expected that the institutional changes would produce a drastic change in factional dynamics within the LDP, since only one candidate can be endorsed and elected in a single-member district system, so intra-party competition in the same district would end. Candidates would be less likely to disclose their factional affiliation to enhance their chances of receiving cross-factional support; as a consequence, factions were not expected to receive new members. In addition to it, faction leaders were expected to lose their ability to mobilize funds since public monies were to be channeled directly to the party headquarters under the new law on funding. Faction leaders thus would lose some of their authority to control how party money was distributed (Cheol, 2001, p. 431).

The effects of political reform are more refractive in the sense that the faction managers were working harder to mold and bend their organizations to conform to their own preferences and organizational interests in a changed institutional environment. Factions did not simply disappear; rather, they have preserved their organizational form but with different attributes (Cheol, 2001, p.433).

The prediction of the decline of recruiting new member did not happen. Even though there no longer is competition among incumbent members in the elections themselves, fierce competition does arise to win party nomination when seats become available in any given district. Faction leaders are desperate to place members of their own faction in those districts. Thus, the sense of competition has shifted from the post-endorsement stage to the pre-endorsement one (Cheol, 1998, 2001).

With respect to the new reluctance to disclose factional allegiances, Cox et al (1999, p.44) argued that “undisclosed” does not mean “unaffiliated”. LDP candidates have little incentive to declare their factional affiliation before they get elected because it reduces their chances to obtain electoral support from other factions.

Besides, there is no empirical evidence to indicate that factions have given up on recruiting new members. In fact, rather than giving up recruiting in the aftermath of the reforms, factions have persisted in their efforts to add members. The general

convention of the Eto-Kamei faction held on November 4, 1999, well before the 2000 general election, saw some 16 individuals step up on the stage to be introduced as new members (Cheol, 2001, p.445).

Other factions also engaged in similar practices and newspaper analysts continue to identify the factional affiliation of new candidates with complete certainty. That the reforms have not blunted the efforts of factions to grow can be seen in the way in which the Hashimoto faction went from being the LDP's third largest faction in 1993 to once again being its largest by the decade's end. Leaders of the faction made aggressive recruitment efforts among junior Diet members in order to recoup the losses the faction experienced after the departure of the Ozawa group in 1993.

The changes in the funding law influenced the potential contributors to individual Diet members. The faction's fund-raising role is shifting from centralized mobilization and distribution of money to providing an umbrella for individualized mobilization through mutual assistance. Politicians rely more on their own efforts to raise the funds they need, which they do through attracting private contributions or by holding fund-raising parties (Asahi Shinbun, 1999).

Cheol (2001, p.459) argued that factions now mobilize less than one-tenth of the money that they had been able to under the old system, according to Ochiai Kazuo, administrative secretary of the former Nakasone faction (Ochiai, 1999). Accordingly, factions have only a nominal amount of money to distribute to their members. An LDP member told Cheol that he received 2 million yen two times a year from his faction but that could only cover a month's worth of telephone and postage bills (Takemoto, 1999).

Though numerous LDP members made it clear that they receive less money from LDP headquarter than they do from their factions, the proportion of the money that will be channeled to individual LDP members is relatively minimal. As far as funding is concerned, individual politicians are responsible for generating the money they need from all imaginable sources. The money distributed by either a faction or the party is just a show of their loyalty to their parties (Cheol, 2001, p.461).



### *3.6 Other factors contributing to the new regime - LDP coalition rule*

#### *3.6.1 Ozawa Defection*

First, the Ozawa defection in 1993 shocked the entire regime and ensured that the LDP could not get majority in the following no-confidence vote and the HR election. The rule of the LDP ended in 1993. After a money scandal involving former LDP vice-president Kanemaru, one LDP faction, led by former LDP secretary-general Ozawa Ichiro, left the party and created a new one called “*Shinsei-to*” (the Japan Renewal Party, or JRP).

Actually, many studies reveals that Ozawa was the key actor in 1993 because he led the most significant defection of politicians from the LDP; an act that brought down the government. Ironically, the movement’s leader, Ozawa, was a most unlikely reformer – a protégé of scandal –tainted Prime Minister Tanaka and the heir to a long line of corrupt, money-oriented LDP politicians. He put together the non-LDP coalition government that took power after the 1993 election. Ozawa’s defection is one of the main reasons for the ending of the LDP hegemony in 1993.

The Ozawa faction not only defected, but also formed a coalition government with all the anti-LDP parties except the Japan Communist Party (JCP). The Ozawa faction had been “owned” at first by former Prime Minister Tanaka and later by former Prime Minister Takeshita. Both of them resigned because of bribery scandals. At one time, Ozawa’s was the biggest faction in the LDP and was considered to be able to obtain and use the most money. If one thinks of anti-LDP parties as uncorrupt and unconcerned about having seats in the cabinet, it might seem strange that the critics of the LDP ’s “money politics” or corruption formed a coalition government with this faction (Otake, 1996, p.336)

Therefore, in order to avoid public criticism of money politics and the execution failure of the LDP government, Ozawa and his coalition partners strived for the change of election rules in 1994 in order to recast themselves as the champion of political reform.

Mulgan (2003, p.47) also observed that there is a number of reasons for making

the coalition became possible. The first reason was some of the LDP's coalition or loose alliance partners contain constituents who were formerly from the LDP camp itself, such as the Liberal, Conservative and Sakigake parties. And this is a reflection of restructuring in the party system which reached a peak in 1993 to 1998. Many of Japan's new opposition parties were formally under the LDP. This not only damaged the factionalism and harmony among the factions of the LDP, but also formed a strong anti-LDP force. In order to tackle these powerful anti-LDP forces, the LDP had no means but to build close cohesion and formed coalition with other parties.

Second, the opposition parties that formerly did not have enough experience and leadership talents became more experienced in this stage, for all the main opposition parties or their predecessor organizations, except for the Japan Communist Party (JCP), have gained government and leadership experience in coalitions and therefore they are better potential partners in LDP-led coalition.

Third, since the loss of its dominant power, the LDP was anxious to regain power, so the LDP then put aside its long-standing confrontation with the SDPJ on matters such as Article 9 of the Japanese Constitution, the status of the Japanese Self-Defense Forces and the US-Japan Security Treaty. Curtis (1999, p.189) mentioned that "the LDP and JSP had been traditional archenemies, but now that alliance with the Socialists was the only way the LDP could return to power, LDP leaders, who for years had accused the Socialist Party of undermining political stability and compromising the national interest".

In the pre-1990s period, it was not so much characterized by conflict between the LDP and the JSP. The formation of coalition between them was only a kind of division of labour. The LDP managed the alliance with the United States, the Socialists keep open lines of communication to the Soviet Union and China. They somehow showed conflict in publicly-visible Diet sessions, but they actually cooperated behind the scenes and developed close personal relations. This policy flexibility provided a favourable environment for the coalition of the two oppositional parties.

Fourth, the differences on policy issues amongst the majority of Japan's political

parties have become less clear in the 1990s than in the previous decades. The situation was that the diminished differences between the LDP and the largest single opposition party since 1993 – the Democratic Party (DPJ) – on various policies including security and defence, compared with the much sharper policy differences that existed between the LDP and the opposition Socialist Party and JCP during the years of LDP one-party rule regime.

Fifth, the credit that LDP claimed from the economic prosperity in the pre-1980s had been totally eroded due to the long economic recession since 1990. Moreover, the new election law together with the bursting economic bubble forced the business sector to change their relations with the political parties. The Keidanren moved away from using donations to secure its interest to publicising its favored policies and participating in government economic panels, which weakened the funding raising ability and the cohesion with business sector dramatically in the LDP-lead coalition regime.

To conclude, the political institutions of Japan, as far as the electoral system, the inter-party relationships and the intra-LDP dynamics, were found to be changed substantially in the pre and post-1993 period. In the pre-1993 period, the conservative LDP held a lion's share of the seats in both the HR and the HC for nearly 40 years. The reason for the dominance of the LDP was the support of the business sector since the LDP dominance provided a favourable environment for the growth of business. The close relationship between the agriculture sectors due to the protectionist industrial policy also played a extent role in maintaining the stability of the LDP. However, the rules of the game and the mechanisms in the political system changed substantially in the 1990s.

The formation of the coalition party system since 1993 has not been a static situation, but rather the formation of the governments has been changing under the leadership of the LDP (except for the period from August 1993-June 1994). Therefore starting from post-1993, or at least post-1994 the regime of Japan was changed from LDP dominance to LDP-led coalition. It was mainly due to the changes of Japan in the early 1990s in which Japan underwent a change in the rules of the game, in which the change in public policies, and the changes of the electoral

system created a major change for the political development of Japan. Since some politicians are for single-member election but some are for proportional representative system (PR), this created changes in the factional politics of the LDP, but, nevertheless, the intra-party and inter-party competition still exists in Japan. The changes in campaign finance reform did not end the money politics in Japan but rather different factions in LDP and other parties changed their attributes and behaviour in response to them. It was somehow difficult for the LDP to earn a predominant share of the votes right now since the rules of the game in the LDP-led coalition regime are no more as stable and predictable as they were in the LDP dominance regime.

## **Chapter Three**

### **Socio-economic coalition: Pre-1990s and Post-1990s periods**

As argued by Pempel (1998, p.21), there can be considered to be three major pillars in a regime, which are interlocking with each other. Detailed explanations on the changes on political institutions were discussed in the previous chapter while the public policies paradigm in the pre-1990s and post-1990s will also be discussed in the next chapter. The changes in the socio-economic coalition in Japan in those particular periods of time were also obvious in Japan. The changes co-existed with the correlation of the changes in political institution and the public policies paradigm. It has been argued that the socio-economic coalition is the base and foundation for any regime anywhere, but especially in Japan in which a strong connection existed between business sectors and bureaucracy and political parties, as well as the agricultural sector. In this chapter, the changes in socio-economic coalition in the pre-1990s and post-1990s periods are explained. Analysis will be put on the interactions between the changes in socio-economic coalition with the political institutions and public policy paradigm in Japan. The chapter will start with the general description of the social-economic foundation of Japan in the pre-1990s and post-1990s period and the analysis in relation with the political regime and the public policy will also be discussed.

#### ***1. Pre-1990s socio-economic regime in Japan***

It was crucial to understand that the socio-economic base is reflected in the character of any regime. It was perhaps important to understand the socio-economic coalition of Japan in the pre-1990s period before drawing the comparison with the more recent period.

Many scholars have drawn attention to the so-called “iron triangle” to explain the close and interdependent relationships between the LDP, business sector and the bureaucracy (Maclachlan, 2004, p.68). The LDP had been in power for such a long

time that important policy decisions have inevitably revolved around the conservative party and its internal political processes. The bureaucrats as well as various interest groups, large and small, played important parts in the decision-making system. The bureaucrats are responsible for drafting and proposing the bill to the Diet and taking control of the execution. Whereas, the business sector devotes their “support” to bureaucrats and political parties in order to strive for favourable policy and business environment. Legislators in the National Diet have the authority to vote for “pass” or “veto” the bill. The real situation was the interplay of relative power between each actor in the Japanese policymaking process (Hrebennar, 2000, p.245). Yanaga (1968, p.95) also stated that organized business, the party government, and the administrative bureaucracy are the “three legs” of the “tripod” on which the Japanese political system rests. Functionally, they are interdependent, even though they operate for the most part in distinct areas.

Burks (1991, p.164) also stated that the top LDP chieftains, high-level bureaucrats, and powerful business leaders built a close-knit network that gave it a very favourable environment for success and exerts great influence among the society. Elitist theory sees these three groups as holding compatible interests and values and as acting together to produce policies that benefit all three and thus entrench their power position, and policymaking to be a result of the interactions among the various factions of the LDP, the various groups of bureaucrats, and diversified business interests (Hrebennar, 2000, p.251).

The socio-economic base of the rule of Japan was on an alliance among big and small business as well as organized agriculture. In Japan, no business-labour alliance emerged; rather, business and agriculture forged an anti-labour ‘alliance’ that relied, not on an open domestic market, but on mercantilist policies. The relationships between business (including large and small) and organized agriculture was so close that they would like to influence and maintain the status quos of the public policies of Japan by preventing changes from mercantilism to an open market economy. We can find that business sectors exerted great influence to the bureaucracy and political parties in the one-party dominant regime in the pre-1990s. Yet, Sugimoto (1997, p.23) also stated the importance of the bureaucracy in the “Iron Triangle” in Japan. Bureaucracy holds supreme authority over business sectors in

Japan because government ministries control licensing, permitting and the implementation of publicly-funded projects which gives such a wide range of power over the business activities. Moreover, bureaucrats are responsible for preparing the bills for social goods and favorable business environment. Bills prepared by bureaucrats for the National Diet also need to be deliberated by the legislators, especially those of the government parties.

In the aspect, it was believed that mercantilism is one of the outcomes of the “iron triangle” which was aided by the alliance and also served to keep the members of that alliance close with each other. The policy was also due to the conservative and dominant power of the LDP in which it would like to strive for the economic prosperity in the post-war period and also help to enlist the support of the business sector and the agricultural sector. Therefore, we can see mercantilism is an ideology in Japan which helps to keep harmony of the socio-economic coalition and formed the so called “Iron Triangle” model in Japan.

The benefits of mercantilism to the alliance’s participants were obvious. For example, by the end of 1960 Japan’s net fixed capital stock was 14,353 yen billion but by the end of 1971 it had grown 327 percent to 46,880 billion yen (Dekle, 1989, p.353). Moreover, because government restrictions limited competition from technologically and managerially sophisticated and capital-rich overseas firms, Japanese products dominated the expanding domestic market, securing for Japanese manufacturers a solid home base from which to expand their markets internationally. This sort of restriction prevented the intensive competition of local business from the international market and in return gain the support of the business sector in the pre-1990s period.

In a similar situation, the export-driven economic success, the protective fortress (mercantilism) for agriculture and small businesses, and the continued stream of direct subsidies, tax incentives and other favorable policies continued the collaboration of these key sectors. Small-business owners also benefited from direct assistance programmes as well as from a politically-driven laxity in the enforcement of labour, environmental, and tax laws. As Calder argued there were many policies that benefited the interests of the small businesses, including credit policies, loans

provision, preferential trade policies and tax policies. As late as the early 1970s, agricultural expenditures as a proportion of total government spending were typically four times greater in Japan than in France, Britain, the United States, or West Germany (Calder, 1988, p.253). In regard to the income of farmers in agricultural sector, farm families remained as high as those in urban and manufacturing areas while regional income disparities were also kept low. Farm subsidies were so extensive that it was argued that “rice farmers and agricultural cooperatives had become political wards of the state”. (Donnelly, 1977, p.53). The continued high growth was essential to maintaining such costly economic inefficiency. The high growth rate in economy in the 1960s and 1970s enabled the government to provide subsidies to the farming sector and preferential policies to the business sectors, to get their support to the dominance of the LDP.

It was shown that the strong cohesion of the business sectors and the agricultural sectors were mainly due to the interests in maintaining the mercantilist industrial and economic policies, which in result helps to strengthen the stability and legitimacy of the LDP dominance regime for 38 years. The interested sectors were afraid that their interests would be harmed by not supporting the government as well as the largest and most dominant political party (i.e. the LDP). The changes in political institutions would definitely result in the changes in the public policies paradigm, so all these conservative forces - business and agricultural sectors did not want the changes to take place to the LDP one-party dominance regime.

### *1.1 What are the characteristics of the business sector in Japan in pre-1990s period?*

There were several important business structures in Japan in the pre-1990s period and all of them were interrelated to the dominance of the LDP and the public policies. In the pre-1990s period, most of the individual companies in Japan were large firms that dominated the business. In the pre-1990s, the largest businesses, which employed more than a thousand workers each, together accounted for about one-quarter of the nation’s productivity.

Besides the monopoly of the large business in Japan, there were some unique characteristics of the Japanese firms on employment workforce, including lifelong



employment on some core workforce who were graduates of high-ranking universities in Japan, for instance Tokyo University. They signed a lifelong contract with the firm to work until they were retired or the company was closed. They rarely faced layoffs and they might be only forced to get early retirement in case of financial difficulties of the company. In that sense, all the core workers were treated as company assets and core workers were placed in an important position in the company. This sort of phenomenon was happened in almost every large business in Japan and was a unique characteristic of large business.

Furthermore, in large companies, company practices aimed to retain the core workforce by getting their support, such as through including them into the discussion of new management practices and technologies that the companies would like to launch in the future, intrafirm training programmes, supervisory selection based on technical knowledge and leadership as well as joint consultation between labour and management at the plant level. The joint consultation between workers and the big business also helped enhancing the relationships and preventing core workers from using radical and politicized national union federations. It has often been observed that only if such consultations did not successfully resolve issues did the labour union push for collective bargaining. These would help increasing the overlap and interests between the managers and the core workforce of the company.

The working practices in Japan were based on the mutual respect and benefit approach and those large companies regarded the core workforce as the assets of their companies rather than short-term and contractual workers. The view of considering them as a long-term investment would certainly demand a stable public policy from the government and thereby big business could invest for their future through predictable policies especially under the LDP dominance. This was easier when politics were almost guaranteed to be under conservative control and rule and so as the public policies formed by the conservative LDP.

Bieda (1970, p.47) stated that one of the key components of the business structure in Japan in the pre-1990s period was the trading company. It has multifarious purposes and activities. Japan has around six thousand trading companies, but only about forty was engaged in world trading activities. The most

prominent include Mitsubishi Trading, Mitsui Bussan, C. Itoh, Marubeni, and Nissho organizations. The largest two trading companies, the Mitsubishi Shoji Kaisha, and Mitsui and Company had more than 100 branches each all over the world. Their annual sales in 1969 were at the rate of US\$6 billion, which would give each of them the rank of one of the twenty trading countries in the world.

In the pre-1990s, the top ten companies handled between 50 to 60 percent of all of Japan's trade, as well as 20 percent of domestic wholesales business. The total value of their operations was typically twice the national budget and 30 percent of GNP. In 1969, they accounted for about 50 percent of Japan's export and about 60 percent of her imports (Bieda, 1970, p.58).

It was no doubt that the trading companies would like to get preferential treatment from the government, especially in the areas of promoting exports and restricting the imports of products from other nations. As mentioned, only forty of them were engaged in world activities and thereby most of them were doing business in the domestic market. The mercantilism industrial and economic policies would assist them in protecting the domestic market in Japan. Furthermore, since most of the trading companies are large business in Japan, they would also like to see predictable policies carried out by the LDP and its policies in protecting their internal market and facilitating them in the external markets as well.

The close relationship of the business sector also appeared in the form of *keiretsu*. *Keiretsu* usually refers to a uniquely Japanese form of corporate organization. A *keiretsu* is a grouping or family of affiliated companies that form a tight-knit alliance to work toward each other's mutual success. The *keiretsu* system is also based on an intimate partnership between government and businesses. It can best be understood as the intricate web of relationships that links banks, manufacturers, suppliers, and distributors with the Japanese government (Pempel, 1998, p.327).

*Keiretsu* operate globally and are integrated both vertically and horizontally. They are organized around their own trading companies and banks. Each major *keiretsu* is capable of controlling nearly every step of the economic chain in a variety of industrial, resource and service sectors.

There are horizontal and vertical *keiretsu*. Horizontal *keiretsu* included twenty to forty or more firms of relatively similarly size that operate in different functional areas or markets. They are usually headed by major Japanese banks and include the “Big Six” -- Mitsui, Mitsubishi, Sumitomo, Fuyo, Sanwa, and Dai-Ichi Kangyo Bank Groups. Vertical *keiretsu* are industrial groups connecting manufacturers and part suppliers or manufacturers, wholesalers and retailers. They represent only 0.1 percent of Japan’ total companies, but contributed to around roughly one-quarter of the national GNP during the postwar period (Pempel, 1998, p.358).

Vertical *keiretsu* involve connections from the large firms at the top of a pyramid down through as many as five layers of ever smaller and more specialized subcontractors, distributors, and capital-dependent firms. For instance, the vertical *keiretsu* include car and electronics producers (Toyota, Nissan, Honda -- Matsushita, Hitachi, Toshiba, Sony) and their “captive” subcontractors. Distribution *keiretsu*, a subgroup of vertical *keiretsu*, control much of Japanese retailing, determining what products will appear in stores and showrooms and at what price (Clark, 1971; Hadley,1970; Gerlach, 1992)

In the vertical *keiretsu*, power was concentrated at the top of the hierarchy. Contractors typically divided orders among several subcontractors to gain multiple alternative sources for needed parts while keeping relatively small inventories and thus holding down fixed costs. The vertical *keiretsu* as well often provided vital connections for small firms since small firms are vertically connected with the larger high valued-added firms. In Japan, usually larger firms at the top will deliver techniques and managerial skills to the subcontractors. These sorts of managerial skills delivery can assist smaller firms to updated their skills, practices and technologies, help them to increase their productivity and even providing them needs when they have any operational problems. These sorts of assistance could definitely reduce the conflicts and competition between large firms and small firms and can even connect them with each other in striving for the economic interests. The results of *keiretsu* will create interdependent relationships between large and small firms and increase their internal bonds.

The interdependent relationships of the *keiretsu* could reduce the conflicts and competition between the large and small businesses. The internal cohesion of the business sector can facilitate making a consistent position towards the government and reflecting their views and interests in a stronger manner. As mentioned beforehand, the public policies of the LDP were to encourage exports and restrict imports. These sorts of policies were designed for the interest of the business sector. The existence of *keiretsu* would also reinforce the support of the mercantilism and the support of the LDP in controlling the power.

Last but not least, individual industries that do not join the *keiretsu* in Japan also pursued the same common goals through trade associations. They formed into different trade associations in order to state out the voices and for their interests. Although there were four main trade associations, the most important was the Keidanren (the Federation of Employers Organisations). These sorts of trade associations had a relatively close relationship with the government and the LDP. Two Japanese government agencies have played primary roles in regulating and making use of trade associations: the Japan Fair Trade Commission (JFTC) and the Ministry of International Trade and Industry (MITI).

Lynn and Mckeown (1988, p.56) argued that “these associations gather a wide range of data and provide technical information and market development strategies for their members. At various times they have served as enforcer of carter agreements, spokesman for the collective interests of individual sectors to both media and the government, consolidators of members opinions on matters of government policy, and conduits between government officials and firm members”. These associations had relatively close links with the bureaucrats.

### *1.2 The relationship between organized business and the LDP*

Regarding organized business, Trevor (2001p.251) stated that business represented the national interest and, as such survival, raising living standards and expanding economic growth remained a national priority. In fact, organized business initiated and proposed policies. It sponsored and supported the party in power. The

business supported the different factions of the LDP with money to support their campaign and promotion activities.

Yukio Ozaki claimed that “the leader of a party in our country must have five qualifications: one to four are money, and the fifth one is political ability” (Hrebentar, 2000, p.58). Money is still the most crucial ingredient in political success. A great portion of the political activities of the major leaders of the various parties and factions is devoted to the raising of political funds. The primary source of LDP funds during the 1950s to 1990s was “corporate Japan”.

During the late 1970s, Japanese business gave an officially reported total of about 9 billion yen per year to the LDP. In addition, an estimated three to four times that total was transferred from the business community to factional leaders and politicians during a given year. The LDP established a special organization, Kokumin Seiji Kyokai, to facilitate the collection of corporate money for the LDP (Hrebentar, 2000, p.179).

They gave money to political parties and also had a say in political decisions, wielding considerable influence. The group had made the government to give up plans to raise interest rates when it had political connotations; e.g. in 1956 four major economic organizations, the Keidanren<sup>3</sup>, Nikkeiren, the Japanese Association of Corporate Executives and the Japanese Chamber of Commerce and Industry forced the Prime Minister Ichiro Hatoyama to resign. Also, in the 1970s, Nihachiro Hanamura (Vice Chairman of Keidanren) relentlessly pressurised the LDP, yelling at them and forcing them to drop demands to raise corporate taxes.<sup>4</sup>

The most important functions of the bureaucracy involve the protection and promotion of industry, in whose behalf it formulated long-term economic plans, made forecasts, set goals, and established priorities. Organized business provided members for the cabinet, the Diet, and government advisory councils and administrative commissions. It hired retired government officials as corporate

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<sup>3</sup> *The Keidanren*: Most powerful business organization, which has been described as the business community’s “general headquarters”

<sup>4</sup> Yomiuri Shimbun (Tokyo), May 30, 2002

executives and trade association officials. In return for political contributions by organized business, the party in power (LDP) strove to create a political climate conducive to carrying on profitable business enterprises.

Generally speaking, it can be argued that Japanese business groups before the 1990s were generally well-organized and these served as a solid socio-economic coalition for supporting the dominance of the LDP and its public policy especially in the economic and industrial part. Moreover, the *keiretsu* in both horizontal and vertical parts were highly integrated and structured. These structures could facilitate the close relationship of the business sectors and unified their roles in supporting the roles of LDP and its public policies.

### *1.3 What are the characteristics of the agricultural sector in Japan in pre-1990s period?*

Mulgan (2003, p.268) argued that of all the economic sectors in Japan, agriculture has been regarded as the one where policymaking involves the closest adhesion among the LDP, interest groups, and ministers levels of politicization and the closeness of ties among the LDP, interest groups, and bureaucratic agencies. The three-way coalition of bureaucratic, party and producer organizations has formed an “iron triangle” of vested interests in agricultural support and protection (Maclachlan, 2004).

In Japan, it was always argued that the agriculture sector was even more internally cohesive than the business sector. One of the most important reasons for that was the *Nokyo*, a system of agricultural cooperatives, which is one of the most politically powerful organisations in Japanese politics. It is an economic entity that provides almost every kind of service to rural areas (Yoshihisa, 2001, p.17).

The system of agricultural cooperative plays a pivotal role in the structure and economy of Japan’s agricultural sector. Although there is no legal requirement to join *Nokyo*, almost all Japanese farmers belong to the organization. It has strong ties with the LDP. For its support of the LDP at election time, *Nokyo* has been able to ensure

that farmers' interests are protected.

*Nokyo* has national, prefectural, and some the thousand local organizations whose members include 99 percent of the farm families in the country. At the village level, cooperatives provide purchasing, marketing, and credit facilities, crop spraying, and equipment. They also provided sound financial support including running banks, insurance companies, and small credit bureaus, as well as driving schools and mail-order bride services. *Nokyo* on the other hand has a close cooperation with trading companies, is Japan's seventh-largest bank and the world's largest insurance company (Pempel, 1998, p.154).

The strong cohesion of the agricultural sector puts pressure on the government to continue the mercantilism policy during the election time and the support of the agricultural sector did ensure the victories of the LDP. The close linkage between the agricultural sector and the LDP are mainly due to their interests. On one hand, the products of the agricultural sector are vulnerable to foreign competition and therefore the *Nokyo* is strongly against the agricultural liberalization of imports, while, on the other side, the LDP would like the votes of the agricultural sector so that they can secure their support in the elections. Therefore the relationship between the LDP and the agricultural sector is interdependent and based on mutual benefits.

The pre-1990s socio-economic coalition was mainly formed by the business sector (big and small business), bureaucracy and political parties as well as the agricultural sector. Firms joined various trade associations to achieve the best interest for the bureaucrats. The close connection of the business sector can form stronger ways to express their ideas towards the government, especially for keeping the mercantilist industrial and economic policy to facilitate their exports and restrict the imports for competition. Furthermore, due to the close relationship between the bureaucrats, LDP and the business sectors through the unique structure of the "iron triangle", the organized business had great influence over the LDP through donations, especially in times of election.

Regarding the agricultural sector, most of the agricultural sector joined the *Nokyo* and since the LDP would need the agricultural sector to support's at elections

therefore the interests of the agricultural sector should be protected from trade liberalization.

Growing evidence suggested that the links between the LDP, certain interest groups, and the national bureaucracy had become so institutionalized as a consequence of the long-term rule by the LDP as to be a parallel threat. Others considered the likelihood that the ever-dwindling electoral support for the LDP might lead to a coalition government or to rule by the opposition parties.

## ***2. Changes in the socio-economic regime in the 1990s***

In the 1990s, the socio-economic structure associated with the “iron triangle” and the business/ agriculture linkages to the LDP came under stress. The Editor of the *Daily Yomiuri* (Tokyo), Shimomiya Takashi has stated that the rules of the game in the “Iron Triangle” model in Japan did change in the 1990s.<sup>5</sup> The following section analyses the changes which have occurred in the socio-economic regime.

### ***2.1 The changes in agricultural and business sectors in post-1990 Japan***

The strong cohesion of business and agricultural regime has changed in the post-1990 period. Basically, two major changes have happened in the 1990s which contributed to the overall regime changes. First, the agricultural sector and small businesses have provided substantially less support for the LDP. Second, big business had become more internally fragmented and not allied solidly towards support for the LDP. The following analysis will discuss the interrelationships between the changes in political regime and public policy paradigm.

Agricultural and small businesses occupied different positions in the 1960s and the 1990s. Farmers and the small business had enjoyed extensive protection through measures as farm subsidies, import quotas on key agricultural goods, and low or no

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<sup>5</sup> *Yomiuri Shimbun* (Tokyo), May 30, 2002



interest loans to small shopkeepers in the pre-1990 period. However, the number, size and economic influence of farmers and small businesses themselves continued to be disproportionately reduced and they were no longer as essential a factor in deciding the winning of seats of the LDP. Urbanization and migration from rural areas, especially by young people, played a role. In the 1965 election farmers made up of 29 percent of the total vote but this was reduced to under 10 percent by the 2000 election (Mulgan, 2003, p.98). Furthermore, farmers' share in the nations' total economic activity was also reduced due to the industrialization and economic development of Japan, which saw the economic structure place greater emphasis on the service sector.

The trade liberalization policies of the government, which also further damaged the cohesion of the socio-economic coalition. In the 1990s, international pressures to liberalize Japan's protectionist markets, which had begun in the 1970s, reached a peak. The LDP government and later on the post-1993 coalition governments were also quite responsive to these pressures from the United States, the European Community and the The General Agreement on Tariffs and Trade (GATT) / World Trade Organization (WTO). Industry, banking, distribution, and insurance sectors were opened one by one. Japan also came to have a lower average tariff rate than the United States and the European Community. Especially in the agricultural sector, Japan had the most liberalized market among the major industrial countries: about 70 percent of Japan's food supply was imported. Decontrolling the rice trade seemed a natural step in Japan's overall process of liberalization (Kuo et al, 1992).

The trade liberalization of the LDP governments had speeded up in the late 1980s and the farmers' reduced support for the LDP could be shown in the loss of the HC election in July 1989, with farm support for the party falling from 56 percent in the 1986 election to 41 percent in 1989. This was a response to the 1988 Citrus and Beef Understanding between Japan and the United States in which Japan had made a deal with the United States on trade liberalization. Similarly, by-elections for the HC in 1992 also showed less support for the LDP from the agricultural sector (Berger, 1981; Kuo et al, 1992).

Apart from the trade liberalization that created adverse impacts on their interests,

their reduction in size and economic influence also made them vulnerable and less influential in providing secure support for the LDP.

Besides the agricultural sector, the changes in economic and industrial policy of Japan also resulted in changes of the structure of the business sector through the system of *keiretsu*. As mentioned, *keiretsu* was a unique system which linked up the big business and small business together. This structure could also facilitate their common interests and reduce the internal competition through both the vertical and horizontal combination.

The open door policy of Japan and changes in the industrial and economy policies resulted in joint ventures between Japanese firms and overseas firms. Japanese companies formed strategic alliances with foreign-owned firms (Porter, 1991; Burton & Saelens, 1994). Amongst the Japanese firms that forged partnerships with foreign firms were Toyota and Nissan in auto manufacture; Fujitsu, NEC, Hitachi, and Toshiba in electronics; Nippon Telegraph and Telephone (NTT) and International Telegram and Telephone (KDD) in telecommunications (Pempel, 1997, p.241). All the changes in the 1990s resulted in a confusion of the “nationality” of the businesses.

The alliances with foreign-owned firms reduce the extent of Japanese ownership of the companies and in that sense, they will not be so united together through the system of *keiretsu* since their interests seemed to be more diversified and they will then compete with each other under the same structure. The changes of the *keiretsu* reduced the leverage of the Japanese business sector and then their views were less cohesive and not strong enough to reflect their views to the government. Most importantly, they were less united to support the government to maintain the mercantilist policies to restrict the competition (since foreign-owned firms were formed in Japan). With less common interests for their sector, their support towards the government as well as its policies decreased.

## 2.2 *The division of big business in the 1990s*

Same as small business, big business had cohesively supported mercantilism in

the pre-1990s. However by the 1990s no such support existed amongst the business sector. Numerous Japanese firms stood out as highly competitive by international standards, particularly large manufacturers in areas such as electronics, machine tools, and automobiles.

The mercantilism adopted by the LDP in the pre-1990s regime had maintained the economy of Japan as being relatively closed to the outside world. The advantages of the relatively closed economy were that Japanese firms could prevent themselves competing directly with the outside world. However, some of the Japanese firms were not able to compete with the outside world after the trade liberalization policy adopted. By the 1990 period, it was interesting that two very different types of large businesses existed in Japan. The first type was predominantly high-tech, internationally competitive, highly-profitable and relying on little or no direct government assistance. They were the part that was successfully established by the LDP government through the protection of infant industries in the post-war policies.

The second type, however, were some non-competitive industries that have been depending on the relative insulation of the Japanese market from outside investment and imports, and a series of specific side-payments in the form of farm subsidies, import quotas on key agricultural goods, low – or no-interest loans. The high growth rate in Japan in the 1960s to 1980s enabled the government to provide such a large amount of subsidies to maintain the preferential treatments for the business sector. However, the economic recession of Japan in the early 1990s reduced the income of the government through taxation and other means.

The division of the large business into two types resulted in sharp internal cleavages within the Japanese business community. Pempel (1998, p.311) argued that the socio-economic divisions of the early 1990s culminated in the actual split within the party in 1993. The LDP split reflected to some extent the urban-rural and competitive-uncompetitive division within the business sectors and the agricultural sector. The competition between rural and urban sector became obvious when the international pressure and trade liberalization forced the opening of the agricultural and economic and industrial markets. In terms of the business sectors, the increases in joint ventures of created internal changes in the market which forced the business

market to change.

Not only was big business becoming more diversified, but the political party-business relationship was being affected by another change in the rules of the game. From the beginning of the 1990s, as discussed in the previous chapter, public criticism of “money politics” grew and then the LDP collapsed. The Keidanren reviewed its political donations, policies and, in September 1993, stopped collecting them from member companies. The donations dropped from a peak of 10 billion yen to 3 billion yen. The Keidanren moved away from using donations to secure its interests to publicising its favored policies and participating in government economic panels.

The cohesion of the LDP and business sector has been further loosened in the new coalition government regime, because under the multi-party coalitions after 1993, business found itself dealing with several political parties, not just the LDP as before 1993. The reform of election law also placed additional restrictions on the fundraising activities of individual politicians which also greatly damaged the power of the LDP. The reforms attempt to channel political money into routes other than the traditional fundraising that resulting in the issue of “money politics” (Christensen, 1996; Stockwin, 2003; Mulgan, 2003; Hrebendar, 2000) by restricting the amount of donation is restricted. The reform stipulated that each candidate is now allowed only one official fundraising organization. Corporations and other organizations can contribute only 500,000 yen in a calendar year to a politician’s official fundraising organization and this fundraising activity would be completely banned in the future.

As a further step, in the House of Councillors elections in 1998, Keidanren succeeded in securing political power within the ruling coalition not by donating money to lawmakers, but by sending a lawmaker to the Diet to represent its interests e.g. during the taxation reform of 1999, the Keidanren succeeded in reducing the effective corporate tax rate. This did bring an impact on the fundraising rule of the old regime (i.e. LDP one-party dominance regime) in the new coalition government regime. Prime Minister Keizo Obuchi, who is the president of the Liberal Democratic Party, even officially announced in 1999 that the “LDP has decided to ban political donations from business corporations and organizations to individual

politicians funds-management organizations next year.”

### 2.3. The bureaucrats weakened

As discussed above, the bureaucrats as well as various interest groups, large and small, played important parts in the decision-making system. However, the bureaucracy lost its influence and public respect during the 1990s to a certain extent. The public's attitude toward the elite is ambivalent. The elite enjoys tremendous social prestige, but its members are also resented. More and more criticisms grew over the practice of *amakudari*, as it is popularly known; bureaucrats retiring in their fifties often assume top positions in public corporations and private enterprise. They also become politicians; by the late 1980s, most postwar prime ministers had had civil service backgrounds. But, *amakudari* also incurred corruption scandals among the top officials and business sector, such as the Recruit affair. Together with the economic problems from the early 1990s, however, evidence of administrative failures from the previous decade had, to some extent, tarnished their image.

In the 1990s, it became apparent that there were limits to the bureaucrats' power. As cohesion between the main anchors in the “iron triangle” were loosened, together with the emergence of the coalition government, the political regime became more fluid. As the politicians tried to use the intense rivalry amongst the parties in the coalition governments to their own advantage, the bureaucracy, which had become comfortable pre-1993 in dealing with only the LDP, now that suddenly they had to liaise with and assist several parties in the coalition governments that made them more difficult to deal with. At the same time, the changes in the business sector, discussed above, also made it more difficult for the bureaucrats to satisfy and control the demands of the various business groups and sectors. For the bureaucrats, just as much as for the politicians and businessmen, the rules of the game in the “iron triangle” in the 1990s were no longer so simple and comprehensive.

To conclude, this chapter focused on the changes of the socio-economic regime of Japan between the pre-1990 and the post-1990s. The socio-economic regime of

the Japan in the pre-1990s period featured a close connection between the agriculture and business sector (including big and small business), bureaucrats and the LDP through the *keiretsu* and the ‘iron triangle’ system. The close connection of the big business and small business and the agricultural sectors provided a strong support for the mercantilism policies that were adopted by the LDP-led government. It could be said the pre-1990 period of Japan was a rather closed economy with protectionist policies for the business sector (i.e. offering preferential conditions to the trading companies in Japan) and the agricultural sectors.

The international environment and policy direction changed towards to trade liberalization in the 1990s. The connection between the agricultural sector and the LDP was greatly reduced due to the trade liberalization, which limited the preferential conditions offered to the agricultural sector, and the downgrading of the rural communities due to rapid urban development. Moreover, through the linkages of Japanese firms with foreign-owned firms, the *keiretsu* system was greatly diminished and big business itself has been divided into two communities. The close network of the *keiretsu* was reduced in Japan and many of the large firms formed networks with the firms owned by the foreigners. The mechanism in the socio-economic coalition changed. The rules of the game in the regime changed and more intervention by international forces occurred.

Internally, the public has striven for a “clean” government and new political phenomenon. The new coalition government’s new election law, launched in 1994 further loosened the cohesion of the business and agricultural sectors with the LDP. The unlimited “support” from the business section for the LDP in the pre-1990s has been guided and restricted by the new election law.

For three decades overall real economic growth had been spectacular: a 10% average in the 1960, a 5% average in the 1970s, and a 4% average in the 1980s. Growth slowed markedly in the 1990s largely because of the after-effects of overinvestment during the late 1980s and contractionary domestic policies intended to wring speculative excesses from the stock and real estate markets. After the “bubble” burst, the Japanese economy averaged around 1% in the 1990s.

Government efforts to revive economic growth have met with little success and were further hampered first by the 1997-98 Asian financial crisis and then in 2000-2001 by the slowing of the US and Asian economies. The government of Koizumi Junichiro has enacted or attempted to pass (sometimes with failure) major privatization and foreign-investment laws intended to help stimulate Japan's dormant economy. While some of these laws have been enacted, the economy has yet to respond, and Japan's aging population is expected to place further strain on the socio-economic coalition in the near future.

## **Chapter Four**

### **Public Policy Paradigm in Japan: Comparison between the pre-1990s and the 1990s periods**

The theoretical framework suggested by Pempel (1997, 1998) argued that in order to assess the regime changes of a nation, the changes in public policy of a particular nation should be identified and so the public policy paradigm is one of the pillars for assessing whether a nation has regime change or not. The changes in the public policy paradigm in Japan could also be linked to the changes of the political institutions, since the changes from the LDP dominance to the LDP-led coalitions would be expected to cause changes in public policy. The new LDP-led coalition regime, which began with the splits in the Liberal Democratic Party (LDP), the destruction of the Japan Socialist Party (JSP), the subsequent establishment of a number of new political parties and the change of the rules of the game in the political system, replaced the LDP one-party dominant regime (1955-1993). But did the formation of the coalition governments after 1993 lead to the formation of different public policy? In order to explore the changes in regime in Japan, it is essential to look into the possible changes in public policy of Japan between the pre-1990s and the 1990s.

Since “public policy” covers a wide range of policies, for reasons of space it is not possible to analyse all of them and so three key policy areas are taken as representative for the purposes of this analysis. The three policy areas chosen can help to indicate not just the content but also the direction of public policies in the two periods, which the industrial and economic policies, the socio-welfare policies and the foreign policies will be discussed.

#### **1. Public Policies in the pre-1990s period**

##### *1.1 Industrial and economic policies in the pre-1990s period*

The postwar fast economic growth of Japan was mainly guided by the managed



economic policy of the Japanese government and the close cohesion of the anchors in the “Iron Triangle”; it was not totally dependent on the resilience of the market economy. At that period of time, LDP was the ruling party and most of the industrial and economic policy followed in the direction of fast economic development. In evaluating Japan’s economic success, many scholars, such as Johnson and Katz see Japan as embodying a state-guided capitalist developmental system in which MITI (Ministry of International Trade and Industry) and industrial and economic policy have played a central role. In this view, government leadership has been the key to Japan’s economic success, with business a willing follower. Through this 40-year period of economic prosperity, the power of the LDP has remained strong.

Tilton (1996, p.285) mentioned that the state had successfully boosted Japan’s economic growth by implementing industrial and economic policies to direct the economy toward high growth sectors. The principal functions of the industrial policy were allocating resources to favored sectors. It can do so through policies (non-market forces) that directly provided resources to industry, such as tax breaks, loans, subsidies, and import protection. These sorts of industrial and economic policies could help speed up the economic development of Japan and help the ruling party LDP to maintain social stability in the LDP-dominant regime.

Japan in the pre-1990s was a deformed “dual economy” unique in the industrial world. Dual economy captures the way in which a set of coalitional and institutional structures entrenched a form of political capitalism at home while pursuing a relentlessly internationalist strategy abroad and the formation of dual economy relied on a series of trade-offs and compensation for the domestic sector, thereby creating a kind of dualist economy (Jayasuriya, 2003, p.339).

Some other scholars such as Ozawa, Bai and Pempel have also examined the economic structure and the subsequent industrial policy of Japan in the pre-1990 decades. Ozawa (2001a, p.489) argued that Japan was once successful in nurturing dynamic comparative advantages and climbing up the ladder of industrial upgrading, while Bai (1997, p.176) had a similar interpretation on Japan’s economy development and public policy; he mentioned that “the Japanese state restrained

market competition in strategic industries through intensive government regulations. To nurture the competitiveness of Japanese companies in strategic industries, the state continued to restrain imports of foreign exchange” (Pempel, 1997, p.332).

Spruce (1994, p.118) also stated that under the influence of the United States, Japan “translated into zero-sum mercantilism where exports are pursued with a near-military, societal totality and any unwanted imports discouraged by all possible means” and “exports were approached through societal organised predatory trading practices, including dumping, direct and indirect subsidies, market collusion, and the planned destruction of entire foreign national industries, all connected with nationally organised technological leap-frogging”.

Pempel (1997; 1998) has more detailed explanations on the term of mercantilism. He argued that mercantilism seeks to advance the macroeconomic interests of a nation-state through catch-up policies involving the protection and nurturance of domestic industries. Japan’s mercantilism was different from the more internationally pervasive doctrines of laissez-faire and economic liberalism. It is a form of government that treasures the small intervention by the government and that any intervention would harm the economic development and result in inefficiency of resource allocation. The protective industrial and economic policies of Japan, as well as their policy devices, such as import restriction or the allocation of foreign currency, were the characteristics of Japanese capitalism. This strengthened its international competitive power for high economic growth and kept foreign intervention out of Japan under the LDP ruling in the pre-1990s (Makoto, 1999). Most importantly, under the mechanism was further strengthened the cohesion between the LDP, business sectors as well as the agriculture sector. By providing a favourable environment for development, these interest groups in return provided funding, blocks of loyal voters and local organizational networks for the LDP to ensure victory in every election.

Based on the explanations of the scholars on the industrial and economic policy of Japan in the pre-1990s period, the LDP government implemented five main policies which consisted of the following important aspects.

First, the promotion of export trade in high-value-added and internationally competitive environment resulted in a relatively successful exporting industry which largely benefited telecommunications, banking, finance, construction and real estate industries etc. While at the same time, restricting imports to protect some of Japan's strategically important industries or infant industries (those industries which had potential and are important for the future development) including automobile, electronics and computer in order to protect them and keep them away from the international competition before the industries have been developed as competitive as the outside world. Second, policies on promoting exports included special depreciation allowances to promote investment in designated machinery by designated industries, permitted a firm with rising exports to claim a special depreciation equal to the product of the increase in its export / sales ratio etc. For some key exporting industries, like steel, the subsidy was huge, in some years in the pre-1990s amounting to as much as 25 percent of profits (Katz, 1998, p.49). A host of other export incentives were also offered, such as special tax deductions, exemption from anti-cartel provisions, lower borrowing rates and special tax status from firms with substantial increases in exports, tax deferments, and in some cases overt subsidization (Katz, 1998; Kosai, 1998; Tsuruta, T, 1998; Itoh et al, 1998; Tilton, 1996; Yoshimatsu, 2000; Uriu, 1996).

Moreover, thirdly, the LDP government set up of import quotas for restricting imports into Japan. A HKSBC report (1989) mentioned that until the early 1960s, anyone wishing to import had to seek foreign exchange from MITI and all commercial items imported into Japan were automatically approved if they are not subject to import quotas and if they carried a value of less than 5 million yen or its equivalent in foreign currencies. For items subject to the import quota system, importers must apply to MITI for an "import allocation certificate" which was specified in MITI's import trade control order notices. All Japanese industrial policies have been designed, implemented, and justified by the MITI. MITI has been quick to argue market failure, so-called excessive competition, and hence seek for government intervention. This situation existed until the early 1990s. Fourth, the government also controlled the foreign exchange market. Foreign Exchange and Foreign Trade Control Law (FEFTCL) and the Foreign Investment Law (FIL) provided a framework which controlled foreign exchange transactions until the end

of 1980s. The regulatory framework included the imposition of a strict quota system over the allocation of foreign currency used for imports. The FEFTCL based on “negative principle” whereby all foreign exchange transactions were effectively prohibited, except for those explicitly allowed by the government. Fifth, the government also posted restrictions on establishing foreign-owned subsidiaries in order to protect the mechanism and avoid the influence from international market. Encarnation (1992, p.184) mentioned that only a small number of foreign-owned subsidiaries were approved in Japan during the 1950s and early 1960s. Accordingly, during the 1950s Japan was a less popular host for the U.S. foreign investment than any other industrialized country. Furthermore, under the foreign investment law of 1950, all instances of inward and outward foreign direct investment, including technology licensing agreements, that is the purchase of patents rights or know-how, required not only a license issued by the MOF, but also the approval of the newly created Foreign Investment Bureau of MITI. Under the LDP dominant regime upto the pre-1990s, permission for foreigners to acquire or set up production facilities or subsidiaries in Japan proved more difficult to obtain than permission to enter technology agreements (Mason, 1992; Flath, 2000). All the above policies aimed to keep all domestic industries and business sectors protected in a closed economy.

Under the LDP hegemony, the interesting thing is that if Japan was to really act in its own self-interest, considering the welfare costs imposed on the country as a whole, it would open its borders to trade. Such a move would, in the long run, increase Japan’s domestic welfare, and the welfare of all of its trade partners. However, the politicians were bowing to the wishes of powerful special interest groups – such as the rice farmers - and refused to liberalized. The pre-1990 economic and industrial policies which were mainly led by the idea of mercantilism; it can be believed that Japan’s stubborn stance ultimately seemed to be more political than economic in the LDP dominant regime.

When one takes a good look at the statistics presented in the thesis, it should be quite clear that trade liberalization is a good policy. However, as rice farmers provide votes and Japanese politicians depend on these votes for their survival, although they did make a few minor compromises, the Japan continued to refuse to reduce its trade restrictions. The price of rice is much lower from international trade, at the peak of

such protectionist policies in 1985, Japan records that imports of rice from the US barely totaled 0.2% of total domestic consumption which Japanese suffered from the high price of rice. In fact, until very recently, Japan has been closed to virtually all rice imports. Agriculture, a lagging, not a leading growth sector, also received special help and almost all government subsidy payments go to agriculture, not industry until early 1990s. As discussed, the LDP got significant support from business sector and farmers in the election, by implementing these policies; definitely, it was favorable for the LDP to keep its close cohesion with and influence to the business sectors as well as the agriculture sector.

This was a major factor in the breakdown of negotiations (Azuma, 2001, p.241). Because of financial support from corporations, business interest groups and agricultural section were generally more independent of political parties than other groups. Both Keidanren and the Keizai Doyu Kai, for example, indicated a willingness to talk with the socialists in the wake of the political scandals of 1988-89 and also suggested that the LDP might form a coalition government with an opposition party in the LDP-led coalition. Yet through these organizations they and other top business groups provided the LDP with its largest source of party funding and vote support.

### *1.2 Social and Welfare policy in the pre-1990 period*

The welfare expansion during the first ten years after 1945 was limited. Under LDP ruling, the characteristics are pro-business and anti-welfare direction, it was commonly found that the post war Japan allocated most of its resources in developing its economy. Therefore, during this period, much of the national effort was focused on social and economic reconstruction. Although a number of welfare measures were introduced, most of them were reforms of similar policies which had existed before the end of the war, and all of them were aimed at establishing a minimum level of livelihood for people and particularly disadvantaged groups of people such as children, lone mother families and the disabled (Peng, 2000, p.87). However, even though social and welfare policies are important for the protection of needy in the society, they were not the priority of the LDP government which the government expenditure on welfare service still kept at low level.

Throughout the 1980s, LDP government sought to reduce the budget deficits by re-establishing the “Japanese-style welfare society”. The policy aim of completing the construction of a western-style welfare state was now criticized as having been misguided, and the new theme emphasized reactivation of the “traditional” family and community ties.

A variety of welfare reforms were introduced to encourage individual self-help and family mutual support, and to cut public welfare expenditure. For example, free health care services for the elderly (Elderly Health Care Programme) were eliminated in 1982, and replaced by a new surcharge system. The Health Insurance and Pension schemes also went through a series of reforms during the 1980s. These resulted in substantial increases in individual contribution rates and, in the case of the pensions, also a raise in pension age from 60 to 65. As wages were linked with the years of service or age, Japan’s age-wage profile was steeper than in the U.S. or U.K. Because of the human capital formation, MPL can be raised through extensive training and experience. This social and welfare policy arrangement definitely contributes to economic development.

In the area of Public Assistance and the Child-rearing Allowances for Lone Mother Families, the eligibility criteria were substantially tightened to “weed out welfare frauds” and to strengthen individual self-sufficiency and the family's welfare obligation (Peng 1997b, p.61).

By 1992 the total number of recipients of Public Assistance was reduced to two-thirds of the 1980 level, from 1.42 million to 930,000 people (Ono, 1997, p.83). The number of lone mother families receiving the Childrearing Allowance also dropped by 10 per cent from 647,606 to 588,782 between 1985 and 1990, while the proportion of those receiving Public Assistance fell by 50 per cent during the same period. On the other hand, a series of tax reforms were introduced to enable “traditional” two- and three-generation households to take on a greater share of welfare responsibilities. A special tax break for a housewife's part-time income was introduced in the same year allowing married women to earn up to yen1 million a year tax-free. A new tax credit for families co-residing with elderly parents was also

introduced in 1984, along with a significant tax break for families purchasing houses built for three-generation co-residency or for home renovations for the purpose of accommodating elderly family members. Finally, a number of other tax benefits for families caring for elderly relatives were also introduced during this time. It is not difficult to see that all these policies were aimed at strengthening the traditional family arrangements and reasserting the welfare responsibilities of the individual and the family and most important which helped to minimize the government and public burden regarding to the serious aging problem in Japan (Ono, 1997, p.62).

To conclude, in the pre-1990 period, the Japanese governmental budget for social welfare allocation was limited and was quite a different pattern from the one emerging in Europe especially in high-welfare countries like Sweden. The LDP government had long avoided sweeping and costly nationwide programs in health care, retirement benefits, or other social welfare measures. The government only provided a “safety net” that maintaining a low level of benefits for those in need.

### *1.3 Foreign policies in the pre-1990 period*

Defense, security, and foreign policy have always been critical elements of Japan’s political economy and had been closely linked with the ruling government. It is noted that Japan in the post WWII era has been characterized by more international passivity, especially the post WWII era in which the foreign policies of the LDP government were very close to the policies and interests of the United States. The LDP targeted the economic prosperity of Japan as the main nation goal and so its foreign policies were designed to achieve that goal.

Given the overriding importance of economic factors in foreign relations, the Ministry of Foreign Affairs worked closely with the Ministry of Finance on matters of customs, tariffs, international finance, and foreign aid; with the Ministry of International Trade and Industry (MITI) on exports and imports; and with the Ministry of Agriculture, Forestry, and Fisheries on questions of foreign agricultural imports and fishing rights. Yet as the postwar generation of leaders and policymakers began to assume a greater role in government decision making and as public attitudes on foreign policy issues matured, there were indications that foreign affairs were

being conducted on the basis of a more stable consensus.

As is well-known, the ruling Liberal Democratic Party (LDP) was closely associated with the conservative, pro-United States position, while opposition parties often staked out positions at odds with the status quo. Japan's foreign policy goals during most of the pre-1990s period were essentially to regain economic viability and establish its credibility as a peaceful member of the world community. During the pre-1990s, foreign policy actions were guided by two basic principles: close cooperation with the United States for both security and economic reasons; and international cooperation through the United Nations (UN). Adherence to these principles worked well and contributed to phenomenal economic recovery and growth during the first two decades after the end of the occupation. National security was entrusted to the protective shield and nuclear umbrella of the United States. The LDP had brought together various candidates and their supporting interest groups and had reached a policy consensus to pursue economic development while depending strongly on the United States security umbrella.

There was no doubt that Japan relied on the military security of the United States, especially in the early years of the LDP government in which Japan was closely linked with the United States through the U.S.-Japan Security Treaty, which provided the broad pattern of the military and security ties between the two countries. Bowen (1992, p.57) stated that “since the war Japan’s defense alliance with the United States has had an enormous impact on foreign policy, both inhibiting and aiding Japan’s relations with other states.”

Katzenstein (1996, p.21) stated that the US-Japan Security Treaty provided the broad definitions of military and security ties between the two countries with few significant changes since its ratification in 1960. The closeness between the two countries in the LDP dominant regime was reflected in the continuation of U.S. bases on Japanese soil, institutional links between the two countries’ militaries, joint military exercises, technology-sharing and co-production agreements, extensive intelligence exchanges, and others. The relationship between them was so close that they have been viewed as a “marriage” with each other (Frost, 1987; Shindo, 1989). Some scholars, nonetheless, argued that the Americans routinely labelled Japan an



“international free rider”. American spent 5-6 percent of its GNP on maintaining its military supremacy, while Japan, committed to nonaggression formalized by its “peace constitution” and protected by the United States-Japan security treaty – limited its military spending about 1 percent of GNP (Islam, 1993, p.62).

Besides Japan’s pro-US approach, the foreign policy of Japan in the pre-1990 displayed on unwillingness to take a more active leadership on a variety of international problems or engaging in international issues, since most of the resources were placed on the economic development. In the pre-1990s, Japan had low posture in international relations because most of the energy and time were spent on the economic development through promoting the export aggressively (Pempel, 1997; 1998). Moreover, because of the unwillingness to take an active role in international affairs, until the 1980s Japan had no significant foreign aid programme and even then, most of the programmes had been focused on aid to Asia. The pro-US stance of the LDP government was characterized by its conservative nature after the WWII and she was not active in uplifting her international status. Most of her foreign policies just closely followed the direction of the US.

Nationally, political challenges to the LDP dominance waxed and waned later in the 1980s as the party faced major influence-peddling scandals with weak and divided leadership. In 1989 the opposition Japan Socialist Party won control of the Diet’s House of Councillors. But the Japan Socialist Party’s past ideological positions on foreign policy appeared to be more of a liability than an asset going into the HR elections in 1990, and the party attempted to modify a number of positions that called for pushing foreign policy to the left. In contrast, the LDP standard bearer, Prime Minister Kaifu Toshiki, used identification with the United States and the West to his advantage in the successful LDP effort to sustain control of the HR in February 1990. It revealed that there was great support among the public to the pro-US approach of the Japanese foreign policy, which the LDP definitely could claim credit due to its solid close relationship with the U.S..

On economic front, a specific example of Japan’s close cooperation with the United States included its quick response to the United States call for greater host nation support from Japan following the rapid realignment of Japan-United States

currencies in the mid-1980s. The currency realignment resulted in a rapid rise of United States costs in Japan, which the Japanese government, upon United States request, was willing to offset.

Diplomatically, another set of examples was provided by the LDP government's willingness to respond to United States requests for foreign assistance to countries considered of strategic importance to the West. Japan's response to the United States decision to help to protect tankers in the Persian Gulf during the Iran-Iraq War (1980-88). During the 1980s, United States officials voiced appreciation for Japan's "strategic aid" to countries such as Pakistan, Turkey, Egypt, and Jamaica. Prime Minister Kaifu Toshiki's pledges of support for East European and Middle Eastern countries in 1990 fit the pattern of Japan's willingness to share greater responsibility for world stability. Japan's leaders welcomed the reassertion of United States military power. We can see the LDP government devoted their full support to the United State, in the Asian and world affairs following the Islamic revolution in Iran, the United States hostage crisis, and the Soviet military invasion of Afghanistan, all of which occurred in late 1980s.

To conclude, the three most important public policies of Japan had been discussed beforehand, including the industrial and economic policies, social and welfare policies as well as the foreign policies. It was noted that the pre-1990 period was dominated by the LDP and at that period of time, most of the resources had been allocated for developing the economic situation of Japan and the close cohesion between political party, business sector and bureaucracy made Japan became strong again in economics. That is why in the pre-1990 period, the Japanese government strongly promoted the export of products but on the other side, restricting imports from other nations in order to prevent the negative impacts on the exports of the domestic industries. Furthermore, due to most of the resources being allocated to the economic development, it was common sense that resources allocated for the social welfare policies should be limited. By the same token, the social and welfare policies were also developed in line with the policy direction of the LDP. Last but not least, the foreign policies were very close to America, to large extent, all these major policies were guided by the political monopoly – the LDP in the one-party dominance regime.

## **2. Regime Change: Public Policies in the 1990 period**

### *2.1 Industrial and economic policies in the 1990 period*

After achieving one of the highest economic growth rates in the world from the 1960s through the 1980s, the Japanese economy slowed dramatically in the early 1990s, when the "bubble economy" collapsed. The economic stagnancy uprooted the LDP hegemonic dynasty and led to its replacement by a new multiparty system, which also caused a shift of public policy direction in Japan. Over the 1990s decade Japanese public policies have changes significantly, the differences and contrasts between the pre-1990s and the 1990s were clear in the public policy paradigm. From the policies changed in the 1990s, evidences were found to present that the industrial and economic policies, social and welfare policies as well as the foreign policies have been altered. The more from LDP dominance to LDP-led coalitions changed all the three types of policies, as will be argued in the following sections.

The mercantilism policy adopted by the LDP government in the pre-1990 period involved macroeconomic policies that were carried out in the approximately the first twenty-five years after WWII, resting on "developmentalist" catch-up. These policies basically included extensive economic planning; industrial organization; protection of domestic manufacturers, financial institutions and agricultural settings; limits on foreign penetration of Japanese markets as well as on Japanese firms moving abroad, which in return devoted their full support to the LDP's ruling in the LDP one-party dominant regime. (Encarnation, 1992; Kosai, 1988; Tsuruta, 1988; Itoh et al., 1988; Yoshimatsu, 2000; Tilton, 1996; Trevor, 2001; Flath, 2000; Katz, 1998).

The policy tools serving these goals were many: high tariffs, and restrictive quotas on most manufactured imports, tight control over domestic consumption, restrictions on capital and technology flows into and out of Japan, a systematically undervalued yen that made Japanese exports cheap in world markets, a very restricted bond market, policies to encourage high personal savings by citizens, and a strong reliance on foreign technology purchases. Together with the close relationship of the anchors in the "Iron triangle" and the high consensus in the society, this made

Japan be the economic giant in the world.

However, the industrial and economic policies have changed much by the mid-1990s. Lincoln (1988) and Pempel (1998) stated that in the 1990s, Japan's capital markets and its currency had become deeply integrated into world markets and the influence of the government on the public policies decreased mainly because the adoption of liberalization in the 1990s. One of the most important changes in policy environment is that government is no longer dominated by the LDP, but an allied coalition. As discussed, "Iron Triangle" formed a powerful cohesion between the LDP, business sectors, bureaucracy as well as agriculture sector in the LDP dominance regime. However, this cohesion changed in the 1990s with the great pressure from the public to strive for "clean government". This change of relationship among the anchors in the "Iron Triangle" together with the changes in economic environment, the new coalition government's ruling have affected substantially the goals, policy instruments, and policy environment in Japan. Following the complaints, the US and other countries began to put heavy pressure on Japan to open its market. Although slow to respond initially, due to these rules of game changed, Japan has begun to liberalize its market.

First, the Japanese government adopted the appreciation of the Japanese yen. It was fixed at 360 to the U.S. dollar from 1947 until 1971, but then went from 145 by mid-1998 to around 120 to one dollar in 2001 (Business Times, 21 August 2001). It was noted that the appreciation of yen was due to the less government control over monetary policy. Second, revised of the Foreign Exchange and Control Law (1980) and the deregulation of the corporate market, which meant that by the mid-1990s, individual Japanese were free to issue bonds abroad in whatever was the most suitable currency and the swap the proceeds into yen. And by 1996, cumulative Japanese investment abroad totaled nearly \$500 billion, making Japan the world's second-largest overseas investor. Japan definitely benefited from the active involvement in international business activities which also helped Japan to recover from the recession.

Third, Japan becomes more international in production and global investment strategies. By the mid and late 1990s large number of Japanese manufacturing firms

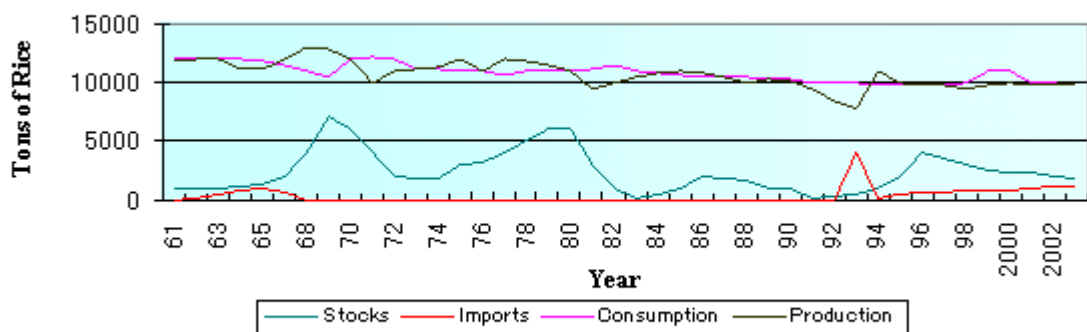
were basing in their activities less on production in and export from Japan and far more on truly international production and global investment strategies. The Japanese offshore market grew from nearly nothing in 1985 to almost half a trillion dollars in 1991. Even though there were signs of decline during economic recession, the affiliates were still in a relatively large increase comparing with the pre-1990 period of time. Third, the government also carried out reducing tariff and trade barriers. Pressures from the United States and the Europeans focused on Japanese reductions of tariff barriers, import quotas, and various non-tariff barriers. The United States and other European countries' pressure became increasingly sector specific to reduce the trade deficit between nations and lead on voluntary export agreements, with France being particularly successful in gaining Japanese consent to restrict exports in colour televisions, cars, light commercial vehicles, motorcycles etc. and even accept a voluntary export restraint (VER) (McCraw, 1990, p.58). Last but not the least, the Japanese government also increased forming strategic alliances. Many Japanese firms, including many subcontractors, added to their multinational character by forging strategic alliances with foreign-owned firms. In the 1990s, Japan employed both market and non-market strategies to form alliances with foreign-owned firms. Burton and Saelens (1994, p.73) stated that amongst the Japanese firms that forged partnership with foreign firms were Toyota and Nissan in auto manufacture; Fujitsu, NEC, Hitachi, and Toshiba in electronics; Nippon Telegraph and Telephone (NTT) and International Telegram and Telephone (KDD) in telecommunications and etc. The joint ownership of the firms undermined the mercantilist orientations that the Japanese companies should be protected by restricting cooperation and competition with the external markets and also often the ties to the keiretsu and also reduced the level of government in manipulating the industrial and economic policies of Japan. Most importantly, liberalization brought large pressure on the cohesion of the LDP and interest groups, which final lead to the change of "Iron Triangle".

As mentioned, votes from agriculture sector was very critical for the LDP in the election. It is interesting to see the situation of agriculture sector after the liberalization in the LDP-led coalition regime.

In 2000 consumers spent over 1% of their income (\$638 per individual) to cover the merely the difference between domestic and world rice prices. This problem directly affects an individual when he/she goes shopping at the local market. Data shows that Japanese consumers pay roughly \$2.63 per kilogram compared to the US price of \$.20 per kilogram (Ministry of Agriculture and Forestry [MAFF], 2001). Other welfare losses are shouldered by the government, which then taxes consumers and imposes further welfare losses. One example of such expenditures is storage costs. As indicated previously, the government has agreed to pay the difference to producers when the domestic price falls below a predetermined standard. It accomplishes this by buying surplus rice stocks at the predetermined price. The government has then chosen to store the rice rather than export it, and this then requires increased taxes to provide for the storage facilities.

Through the liberalization, the changes in industrial and economic policies especially in the rice sectors could be categorized in the following aspects. In the 1990s, Japan has been gradually reducing trade barriers. (United States Department of Agriculture [USDA], 2002). Figure 1 illustrates a few of these effects. Note that when consumption exceeds production, storage volumes and the associated expenses increase. Also interesting to note is the import level of nearly zero until 1993. The lack of imports can be taken as evidence of the welfare loss experienced by consumers.

**Figure 2 -- Japanese Rice Trade Indicators**



Sources: Fukuda et al., 2003; MAFF, 2001

When the specific data is considered, Japan is one of the highest cost rice producers in the world; on the other hand, other countries, such as Burma enjoy some of the lowest production costs, (Yap, 1991). In the event that the trade between the

two countries was to be completely liberalized, Japanese consumers would likewise benefit from the liberalization through the increased supply and subsequent decline in prices. From the above table, we can note that in the pre-1990 import of near no rice imported from abroad due to the mercantilism and protective policy adopted by the LDP government. Under liberalization, rice has been imported since 1990s due to the great international pressure. No doubt that Japanese rice farmers are facing a great challenge which have ever met before. Agriculture liberalization further loosens the cohesion of the LDP and farmers in the new regime. By-elections for the HC in 1992 also showed less support for the LDP from the agricultural sector (Berger, 1981; Kuo et al, 1992).

The above characteristics are some major elements of changes in industrial and economic policies of Japan in the post-1990 period due to the change of the economic environment and political regime. Besides, Frieden (1993), Thorn (1987) & Turner (1991) stated that Japan has come to dominate international money and financial markets, and international conditions have become extremely important to many Japanese firms. Japan's rise to predominance has been almost as rapid as that of the United States during and after WWI. By the late 1980s and early 1990s, the figures were 20 percent of foreign direct investment (FDI), 25 percent of equities, 55 percent of bonds, and 50 percent of short-term bank outflows compared with only 2 – 15 percent of above sessions in the 1960 and the late 1970s. Temporary difficulties in the 1990s did slow this process, but they were unlikely to alter the overall trend; Japan's role in Pacific financial and investment flows was extremely large and likely to grow larger which Japan being much more pro-active in the international market.

Also, the process has made major Japanese banks and firms far more integrated into the international financial system. Japanese financial investors and intermediaries had enormous overseas positions; as of 1991, the international assets of Japanese banks were \$1.9 trillion, one-third of total international bank assets (Bank of International Settlements, 1991). The integration of Japan into international financial system reduced the cohesion of the *keiretsu* and therefore individual Japanese companies and financial institutions in the mid and late 1990s, free to issue bonds abroad in whatever was the most suitable currency and then swap the proceeds into yen. Their dependence on financing from home-based banks diminished sharply

(Pempel, 1997, p.211).

The above changes in the industrial and economic policies in Japan in the 1990s period were evidence that Japan could be regarded as undergoing a change from a mercantilism to an open market economy. The changes in industrial and economic policy were partially due to the pressure from the international marketing, but also because of the gradual decline of the LDP dominance in the political regime in Japan in the LDP-led coalition regime. But, as public policies were formed due to the decision-making process of the government, we can find although the LDP's power has been eroded in the LDP-led coalition government, it still exert its influence to protect their old partner – rice farmer by issuing enormous subsidies to them. However, the cohesion of the LDP, business sector and agriculture sector has been greatly damaged after the liberalization. The LDP lost much of the farmers' vote in 1993's election which forced the LDP to form the coalition alliance to regain its power to the Diet in the new regime.

## *2.2 Social and welfare policies in the 1990 period*

In the pre-1990 period, the pattern of welfare development in Japan suggests a case of retrenchment and most of the resources have been allocated in the economic restructuring and development due to the LDP priority in economic development. However, in the 1990s we see quite a different shift. With the collapse of the Bubble Economy in 1989, it would seem that the predictable thing for the government to do was to consider strengthening the social welfare service in Japan.

In the 1990s the call for the Japanese-style welfare society had all but disappeared, and the notion of welfare expansion had re-emerged as an important policy priority. Indeed, government report after report emphasized the urgent need to rethink the welfare system and to reinvest in welfare infrastructure. One immediate outcome of this has been a steady rise in social security expenditure to run a large scale care-based social welfare program in order to comfort the public anxiety caused by economic downturn and to gain public support. The post-1993 coalition government tried its very best to solve and mend the anti-welfare discussion failure made by pre-1993 LDP government. Although LDP-led government came back to



power in 1996, the direction of the social welfare policy did not changed much. Currently the total social security expenditure in Japan accounts for approximately one-third of government expenditure.

In fact, by the mid-1990s, social security had become one of the largest items of the government expenditure and one of the fastest-growing sectors in Japan due to the change of the LDP dominance to a multi-party system. The coalition government started to the total national budget expenditure (i.e. all expenditure other than those for serving national debt and the allocation of tax grant to the local governments). In 1996 it accounted for 14.3 billion yen out of 75 billion yen. Social insurance is the largest item within the social security expenditure--it accounted for yen 8.5 billion or 60 per cent of the total social security expenditure--while personal social welfare services accounted for about yen3.8 billion or 27 per cent of the total. The national budget in Japan is relatively small. Government expenditures have been less than 10 per cent of the GDP since the beginning of the 1980s. In 1996 the ratio of general government expenditure to GDP was 8.7 per cent (Japan Ministry of Finance, 1997).

Reviews of the social security system in 1989, 1994 and 1995 have led to a number of new policies and legislation aimed at redesigning the Japanese welfare system. Particularly, significant changes were made in the areas of elder care and child welfare. These changes have brought about not only a new consensus about an increased state role in welfare provision, but also a substantial shift in the nature of social welfare itself.

Before the 1980s social welfare in Japan was largely regarded as serving the function of poverty relief: that is, that part of social welfare other than social insurance was mainly focused on cash-based public assistance and related activities reserved for a relatively small group of people, such as the elderly, the disabled and lone mother families. However, recent shifts suggest an attempt to make social welfare more universal, and at the same time to shift its focus from cash-based assistance to care-based social services. The social welfare trajectory in the 1990s seems to reflect this new direction.

Currently the two main loci of social welfare in Japan are the Chronic Care

Insurance and child care reform. The services paid for by the insurance include: a variety of domiciliary care such as home help, bathing, visiting nurse, rehabilitation; the cost of equipment for domiciliary care such as wheelchairs and special bathroom equipment; the cost of approved home repairs and renovations; high levels of care for those with higher degrees of disability; and the cost of institutional care for those living in institutions. The scheme will operate as a mandatory public social insurance, the cost of which will be borne by all citizens over the age of 40. For those who are between the ages of 40 and 64 the insurance fee will be simply added on to the existing health insurance, while for those over the age of 65.

In terms of child welfare a similar shift towards an increased state and market role in the provision of care can be seen. A new child care policy was introduced in 1994 as a part of a larger child welfare reform known as the *Angel Plan*. Its aims are to provide a wide range of support to families with children, and to create a positive environment for families to have more children. This policy so far has led to an expansion in a number of public childcare services. Over the last few years some local governments have become more lenient in their day-care needs assessment for publicly funded day-care spaces.

Besides Chronic Care Insurance and child care reform that was established in the post 1990 period, the long-term care insurance (LTCI) has been implemented, with the exception that the premium payments by the insured started six month later. The Long-term care insurance is the first comprehensive policy instrument to tackle the problems of the ageing population. The estimated number of the aged who need LTCI was 2.8 million (Aspalter & Lai, 2003).

It is important to point out here, however, that although significant, these changes by no means indicate that the Japanese state has now replaced the family or the corporate sector in providing social welfare, it was just a symbol of the changes of the needs of the society as well as changes in policy making of a LDP-led coalition government. Indeed, while the changes are significant, the fact is that the level of the state provision before this was so low that even with the most optimistic level of increase it will still be a while before the Japanese welfare state will reach the level of many of the European ones in terms of service provision.

### *2.3 Foreign policies in the 1990 period*

In the LDP-led regime since 1993, it appears clear to observers in Japan that the majority of the Japanese public and elite are satisfied with the general direction of Japan's foreign policy. That policy direction is characterized by continued close ties with the United States to sustain world stability and prosperity that are so beneficial to Japan, and incrementally more assertive Japanese policies, especially regarding international economic and political institutions and Asian affairs. Beyond its immediate neighbors, the LDP-led coalition government has also pursued a more active foreign policy in recent years, recognizing the responsibility that accompanies its economic strength. It has expanded ties with the Middle East, which provides most of its oil. Japan increasingly is active in Africa and Latin America and has extended significant support to development projects in both regions.

It is noted that Japanese security policy has been largely passive and reactive in recognition of Japan's deference toward the United States due to the close relationship of the LDP and the United States in the pre-1990 LDP one-party dominant regime. As the armed forces (Self-Defense Forces) were constrained by ideology and legal and political frameworks, Japan has relied heavily on economic levers, such as investment and financial aid, to exercise influence abroad.

After several decades as long-standing military allies and increasingly interdependent economic partners, Japan and the United States cooperated closely to build a strong, multifaceted relationship based on democratic values and interests in world stability and development. These two societies and economies became increasingly intertwined. On the economic front, in the 1990s their combined gross national product totaled about one third of the world's GNP. Japan received about 11 percent of United States exports (a larger share than any other country except Canada), and the United States bought about 34 percent of Japan's exports. Japan had US\$148 billion in direct investment in the United States in 1991, while the United States had more than US\$17 billion invested in Japan. Some US\$100 billion in United States government securities held by institutions in Japan helped finance much of the United States budget deficit. Economic exchanges were reinforced by a

variety of scientific, technical, tourist, and other exchanges. Each society continued to see the other as its main ally in Asia and the Pacific. Certain developments in the late 1980s damaged bilateral relations. Nevertheless, public opinion surveys continued to reveal that substantial majorities of Japanese and Americans believed that the bilateral relationship was vital to both countries. The importance regarding to the close relationship with the United States definitely cannot be undermined.

In the domestic political system, from the lesson of the 1990's HR election as mentioned in the previous section, in 1993 although the coalition government overthrow the LDP one party dominance government, Prime Minister Hosokawa Morihiro pledged to continue the LDP policy of economic and security ties with the United States; of responding to domestic and international expectations of greater Japanese political and economic contributions; and of international cooperation through the UN and other international organizations in the cause of world peace, disarmament, aid to developing countries, and educational and technical cooperation. Foreign policy speeches by the prime minister and the minister of foreign affairs were widely disseminated, which the new government continued to follow the existing pro-US approach and no great changes in the pro-US approach when compared with the LDP-one party dominance regime in term of the foreign policy.

Also, in the LDP-lead coalition regime which the strong pro-US stance of the LDP is still existed in Japan in terms of its foreign policy direction, but definitely the LDP-led government would work towards a direction which can satisfy the political aspiration of various parties, especially the JSP which has a relatively strong in socialist background. Therefore the minor shift in her stance in foreign policies were proved to exist in the LDP-led government, partially due to the fact that the LDP-led coalitions had less autonomy, meaning that the coalition government is led by the LDP, but not dominated by the LDP.

The nation's phenomenal economic growth had made it a ranking world economic power and had generated a sense of pride and self-esteem, especially among the younger generation. Moreover, after the long recession the LDP-led government also strived for a more internationalism foreign policy in order to fasten the economic recovery of Japan as soon as possible. In the LDP-led coalition regime,

government not only adopted pro-US approach, in this new regime also it also strived for internationalism with more independence from the United States. Japan has expressed greater interest in global recognition of Japan as a major power. Moreover, to adopt more internationalism also it is very important for the LDP to gain more support and recognition from the young generation instead of old farmers alone.

By the 1990s Japan had moved into notable roles in a number of regional organizations such as the Asia Development Bank, APEC, Pacific Economic Cooperation Council (PECC), the Pacific Basin Economic Council (PBEC), and the Pacific Trade and Development Conference (PAFTAD) (Pempel, 1998). Also, in the 1990s, Japan became the world's largest creditor, an increasingly active investor in the United States, and a major contributor to international debt relief, financial institutions, and other assistance efforts. Moreover, Japan had become less dependent on the Western powers for resources. Oil, for example, was obtained directly from the producing countries and not from the Western-controlled multinational companies. Other important materials also came increasingly from sources other than the United States and its allies, while trade with the United States as a share of total trade dropped significantly. Thus, political leaders began to argue that in the interests of economic self-preservation, more attention should be paid to the financial and development needs of other countries, especially those that provided Japan with vital energy and raw material supplies.

The increased Japanese internationalism was also shown through overseas assistance. By the early 1990s, Japan's share of official development aid made it the largest or the second largest contributor worldwide. Moreover, in the 1990s, an increasing portion of Japanese aid was given via international financial institutions such as World Bank and Asia Development Bank. Uriu ( 2004, p.172) stated that in the war of Iraq, as early as in April 2003, Japan announced a series of small humanitarian aid packages. Just prior to US President George W. Bush's visit to Tokyo in October 2003, Prime Minister Koizumi promised that Japan would give \$1.5 billion for FY 2004, earmarked for the provision of electricity, water, medical

assistance, and education. In the end, Japan pledged a total of more than \$5 billion to help in the reconstruction effort in Iraq over the next four years. This amount to about 10% of the World Bank's initial estimate of reconstruction costs and made Japan the largest foreign contributor.

The most important shift in its policy should be the willingness of Japan to use its troops overseas and the amendment of the nature of the Japan Self-Defense Force (JSDF). Roy (2004, p.91) argued that the JSDF has expanded their activities. Since 1992 the JSDF has participated in UN peace-keeping operations in several points of the world. The JSDF also contributed to the US attack on Afghanistan after 9-11. In June 2003, Japan's Parliament passed three war contingency bills. These were the Law regarding Response to Armed Attacks, the Law on the Establishment of the Security Council, and the Law on the Establishment of the Security Council of Japan, and the Law to amend the Self-Defense Force (SDF). The law allows the government to put the SDF on standby when it determines that a military attack is "anticipated". Some scholars, such as Pempel and Calder also stated that the active involvement in the international affairs is one of the tricks of the LDP-led coalition government to shift the society focus from domestic economic downturn to the international arena.

Although postwar Japan is reputedly "disarmed", the JSDF is substantial, with around 250,000 military personnel and an official annual budget of approximately US\$50 billion, the world's second highest. Japan has deployed some means of projecting military power, such as submarines armed with Harpoon missiles (Shuja, 2004). The JSDF in March 2003 launched its first dual-use surveillance satellites to spy on North Korea and in 2003. Japanese fighters, with airborne refueling assistance from a U.S. tanker aircraft crossed the northern Pacific to participate in military exercises in Alaska along with contingents from the United States, Thailand, South Korea, Singapore, and India. This marked the first time Japanese military aircraft have trained in the continental United States (Roy, 2004, p.87).

Moreover, Japan in 2003 decided to move ahead more aggressively on missile defense. The LDP-led coalition government has expressed a growing interest in a system since 1998, when North Korea launched a missile that flew over Japan territory. Early in 2003, however, Japan officials began to seriously consider

purchasing and deploying a U.S. made system as early as 2006. The proposed system would involve missiles launched from Aegis-equipped destroyers with ground-based Patriot missile batteries as a backup. In August 2003, The Defense Agency issued a plan calling for a tenfold increase in spending on missile defense, to \$1.2 billion in 2004, followed by annual outlays of \$1 billion through 2007 (Uriu, 2004).

In regard to the sending troops overseas, Uriu (2004, p.177) mentioned that it is best explained by the U.S. war on Iraq. In early December 2003, the government released detailed guidelines for the eventual deployment of 1,000 SDF personnel. Japan then sent 550 soldiers from the Ground Self-Defense Force and 150 members of the Air Self-Defense Force, along with four military transport planes.

To conclude, this chapter focused on the changes of the public policy paradigm of Japan in the pre-1990 and post-1990s. The public policy paradigm of the Japan in the pre-1990s period was rather a close nation with protective industrial and economic policy with mercantilism, anti-welfare approach towards the social-welfare service and pro-US approach in the foreign policy. The Japan domestic policy environment has been quite favorable for industrial policy and for economic policy generally. High priority is given in Japanese government policy making to economic, social welfare issues, domestic and international. Societal norms stress the importance of harmony through cooperation and at least form of consensus in Japanese society. In Japan these relationships are seen as positive-sum, not zero-sum, game. And business in Japan has benefited substantially from the continuance in power of the pro-business, conservative Liberal-Democratic party ever since 1955. The close connection of the big business and small business and the agricultural sectors provided a strong support for these public policies that were adopted by the government in the LDP dominant regime. We can say the LDP's stance in public policy in the pre-1990s seemed to be more political than economic which the policy is a powerful tool for the LDP to maintain its superiority in the LDP dominance regime.

The change in the regime in the 1990 together with the change in the international environment caused substantial changes in the public policies of the Japan in the new LDP-lead coalition regime in the 1990s. The Japanese government

adopted a more liberalized and international approach towards the industrial and economic and foreign policies. The change of public policy paradigm is businesslike, the further enhancement in social-welfare policy and the liberalization definitely benefited the Japanese welfare. However, in return this also brought a blow to the Iron Triangle, which further loosen the cohesion of the LDP, business and agriculture sector and changed the rule of game in the political system in Japan.



## **Chapter Five**

### **Conclusion**

The political status of Japan is generally described as extremely constant during the period of LDP dominance after its formation and coming to power in 1955. Because of the continuous control of the government enjoyed by the LDP for 38 years, the sudden fall out of power of the LDP in 1993 and the long economic recession of Japan arrested the attention of the political scientists and economists. In the 1990s Japan's political economy was sharply different from what it had been two or three decades earlier. In the HC, the July 1989 election represented the first time that the LDP was forced into a minority position. The political crisis in 1993 was testimony of the regime change in Japan.

Regarding the change of the political situation in Japan, a considerable quantity literature on the political changes of Japan can be found, yet, most of them focused on two aspects of Japan, either from political system angle or the economic recession viewpoint, which cannot provide clear explanation why an unpredictable change happened in the political economy in Japan in the "Lost Decade" and also fail to provide an in-depth analysis regarding to change of Japan. Therefore, it is useful to provide a comprehensive explanation on the changes of Japan in a systematic way. It was the purpose of the current thesis to provide such a detailed explanation and analysis on the political change in Japan. The current research would like to argue that Japan underwent a process of shift in regime; the major change is the LDP dominant regime of the pre-1990s period transformed to a regime with the LDP less dominant or say a LDP-led coalitional regime in the post-1993 period. Also, why this change happened in Japan has been presented with detailed analysis.

The concept of political regime and regime change are very useful in analysis of the political change of Japan in the "Lost Decade". The definition of "regime" is very much linked with the norms, principles and rules of a nation, which are the so-called rules of the game. Political regime could be used in different levels and domains. Then the term "regime change" has provided the concepts of the change of the rule of the game in any regime, which is very favorable for analysis in comparing entire

systems, to study long-term change and justifies a broader scope.

In the current research, the “regime” model developed by Pempel provides a tangible outline of the major elements of regime which are taken as the political institutions, the socio-economic coalitions and the public policy paradigm. Based on Pempel’s concept, it was argued that Japan was undergoing regime change in the 1990s. With the guidance of the political regime change model and from the literature review, the change of the rules of the game in these three pillars was showed to be the most important factor that could explain the regime change in Japan. As most of the literatures regarding to the political change in Japan were published by the late 1990s, more updated information could be included in the current research in order to provide more concrete details for analysis. In the case of Japan, the change of the rule of the game could help to explain why there was a change of regime from LDP dominance in the pre-1990s to LDP-led coalitional government in the 1990s.

The political institutions of Japan definitely underwent a regime change from the LDP dominance to a regime with the LDP less dominant, which was described in chapter 2 as a regime of LDP-led coalition rather than LDP dominance. The early 1990s were critical for the development of the political system and the evidence discussed earlier provided justifications for the change of the rules of the game. The interrelationships of the LDP with the socio-economic coalition and public policy were also obvious in the sense that the changes of the LDP resulted in a change in the other two pillars. For example, the increasingly strong evidence of “money politics” associated with the LDP led to business and public disillusionment and impacted on the strength of the “iron triangle”, which in turn impacted back on the LDP’s election prospects. Together with the change of electoral system in 1994 which changed the rule of the game further and strengthened the existence of the coalition ruling in the post-1993 period.

Moving on to the socio-economic coalition, as discussed in chapter 3 the socioeconomic coalition of the Japan in the pre-1990 period showed a close connection between the agricultural and business sectors (including big and small business), bureaucrats and the LDP through the *keiretsu* and the iron triangle system.

Close relationships of the LDP with the agricultural and business sectors resulted in a strong flavour to the policies advocated by the LDP, including mercantilist economic policies, small budget on social welfare and America-led foreign policies. In the post-1990 period, the rules of the game in the regime changed in that the connection between the agricultural sector and the LDP was greatly reduced due to the trade liberalization and the downgrading of the rural communities. Moreover, through the linkages of Japanese firms with foreign-owned firms, the *keiretsu* system was greatly diminished and big business itself has been divided into two communities – foreign owned and domestic companies – with tensions between them. These changes in the rules of the game resulted in less support for the LDP, so its influence declined and contributed to the regime change with the emergence of the LDP-led coalition.

Regarding the public policies paradigm of Japan which was discussed in chapter 4, Japan's domestic policy environment had been quite favorable for industrial and economic policy generally in the pre-1990s. High priority was given by Japanese government policy-makers to developing economic aspects and less on social welfare issues. Mercantilism which favoured the domestic industries and prevented the intervention of the foreigner-owned industries existed in Japan in the pre-1990s period. Business in Japan benefited substantially from the continuance in power of the pro-business, conservative LDP. The dominance of the LDP in the pre-1990s resulted in the formation of public policies that favoured strong and protective economic policies (mercantilism) in order to put economic development as the first priority. In that sense, the expenditure on social and welfare policies was limited at that time. The postwar foreign policies of Japan were clear-cut and favoured the interests of the United States.

Changes happened in the early 1990s in which the rule of the game in the pillar of the public policies paradigm changed, mercantilist economic and industrial policies change to less protective and more market-oriented, caused by the change in the international environment as well as by the coalition government. The stance of Japan on foreign policies in the early 1990s seemed to be more international, moving from followed strictly to the policies adopted by the United States to a more independent intention; a mix of working closely with the United States on some issues but acting with more independence on others. The industrial and economic

policies, the social and welfare policies and the foreign policies changed significantly in the post-1990 period and these changes of the rules of the game were the testimonies of the regime change, from LDP dominance to LDP-led coalition.

All these are the change of the rules of the game of Japan in the 1990s. The regime change approach provides an ideal mode for characterizing the regime of a country and the theory itself provides a method to analyze the political and socio-economic changes of Japan. By utilizing Pempel's framework, we analysed the regime change in the "political regime" domain at national level. The three main pillars justifies a broad scope in which the change of the rules of the game in the political institutions, the socio-economic coalition and the public policy help to explain why the LDP lost its power in the 1990s and why the LDP-led coalition regime emerged.

It seems that in the near future, the LDP could not regain its dominance in the government and coalition governments are likely to continue to form in the future years. In terms of the socio-economic coalition, with the increase in foreign-owned enterprises, the traditional cohesive links between the party system and the large business sector will further diminish. The ways and management style of the foreign-owned firms might change the management style of Japanese firm. Some form of "iron triangle" will still exist (even though its cohesion may be reduced to a large extent). The LDP-led government, the bureaucracy and the business sectors are still the most influential parties in society. Even though the economic recession in the early 1990s reduced greatly the profit gained by the business sector, they are still the largest financial source for the political parties during election and fund-raising. Yet, their relations changed as the rule of the game changed and their political status is no longer as constant as before.

In terms of public policies, Japan has been striving for a better economic development since the early 1990s' economic recession. The banking system, especially the bad debts, is the core reason for the continued recession of Japan. Higher priority will be put on further enhanced the strength and competitiveness of Japan in the international market. Due to the rapid ageing process in Japan, resources and ways to handle properly the ageing issue will still be a priority for the Japanese

government. The resources spent on social and welfare policies should no doubt increase to a great extent in the near future. As for the foreign policies, moves towards a more clear and individualized stance on international affairs will appear in the future, even though a close relationship with America, especially on some large important issues, will still exist.

By using the theoretical mode of regime change, a more systematic and logical way of analyzing the recent changes of a regime in Japan was found. Political institutions, socio-economic coalition and public policy paradigm constituted the three main pillars of the regime. Consequently, two different and unique regimes in which the first one was from 1955 to the early 1990s (LDP one party dominance regime) and the second regime was from 1993 to the early 2000s (LDP-led coalition regime) have been defined. As the new rules of the game are shaping up the new regime, the study of the regime change of Japan in the “Lost Decade” will remain critically important for understanding the future development of Japan. This type of approach in turn may well have implications for examining and explaining changes which have been or are being undergone by other countries in which one-party dominant regimes lose power.

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