Chapter 4

Reforms, Resistance and Changing Nature of Japanese Politics

4.1 Introduction

Resistance to reforms may be due to the effects, advantages or disadvantages of changes to the individuals or groups that may come about as a result of reforms. Preparing a clear vision and having sufficient knowledge of the existing conditions are of crucial importance for its success (MacRae, 1988). As a result the reformer should keep in mind that opposition to reform is often grounded on complexities related to the costs and benefits of policy changes and the trade-offs between economic and other objectives and hence comprehensive and transparent explanations are essential elements of successful structural reforms (Rajan and Zingales, 2003). The various stakeholders should have a clear understanding of the problems and solutions including the involved costs and benefits in both the short and the long run. Governments throughout are committed to strengthen growth, employment and public finances and the pursuit of these objectives requires in many countries extensive structural reforms. Yet, progress has been uneven across both countries and policy fields. The differences in the depth, scope and timing of reform also reflect political constraints. Because reforms do not only increase overall welfare but also tend to alter its distribution across society, it has proved difficult to generate the necessary pro-reform consensus in the electorate (Matsuda, 2005).
Better understanding the factors behind resistance to reform and finding the ways to overcome it are at the core of a new area for research, the so-called "political economy of structural reforms"\(^1\) (Fernández and Rodrik, 1991). Reform, however, must also be carefully designed and thoroughly implemented. In the process, reformers will certainly run into stiff resistance from powerful vested interest groups. Successful reform will require competent administration and strong political leadership (Noble, 2006).

After decades of research, discussion, and debate, economists have finally acknowledged the importance, if not the primacy, of institutions as the bedrock of sustained growth and development. (Irwin and Kroszner, 1999). While policies can make a difference, recent econometric studies indicate that much will depend on the institutions that govern a country (Rodrik, Subramanian, and Trebbi, 2002). Institutions, in this context, refer to the agglomeration of rules, both formal and informal, and the mechanisms for their enforcement are among the most important of these institutions (Acemoglu and Johnson, 2005).

In some countries, the pertinent laws may be absent or inadequate. In others, all the possible (pertinent) laws one can imagine have been passed and are "state of the art"; however the enforcement mechanisms are absent or weak. In either case, institutions are deemed to be poor people are not bound strongly to the rule of law\(^2\) and property rights can be easily violated. Not surprisingly, in such countries, long-term investment is inadequate, growth remains sluggish, and poverty persists if not worsens. The emerging primacy of institutions has been accompanied by a growing recognition of corruption as a

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1 The notion that reforms may have short term costs and long term benefits, but that the benefits will not materialize if reforms get stuck at a partial state, for instance due to state capture from "winners of partial reform". It follows that a reformer with benevolent intentions can increase his political credibility by choosing a level of political reforms that is too costly to pursue for a dishonest candidate, and thereby separate himself from the other type in the eyes of the voters. Hence, implementation of these political reforms works as a costly signal, alleviating the political credibility problem, and help build continued support for economic reforms.

2 The most important application of the rule of law is the principle that governmental authority is legitimately exercised only in accordance with written, publicly disclosed laws adopted and enforced in accordance with established procedural steps that are referred to as due process. The principle is intended to be a safeguard against arbitrary governance, whether by a totalitarian leader or by mob rule. Thus, the rule of law is hostile both to dictatorship and to anarchy.
"cancer" that retards development (Rodrik, Subramanian, and Trebbi, 2002). This is not
at all surprising because corruption is a major symptom of weak rule of law. Corruption
thrive much more easily in an environment where laws are inadequate or fragile. If, for
instance, there is no law barring the receipt of gifts from the public, or if such actions are
illegal but violators can easily avoid or deflect prosecution, then government officials can
more easily solicit or extract bribes from citizens and firms. Indeed, there are strong
correlations between corruption and weak rule of law (World Bank 1999; Kaufmann,
Kraay, and Zoldo-Robaton 1999).

In order to know about the nature of resistance in Japan, we first need to look at the
institutions which were responsible for the same. During the 1950s and 1960, Japan
attained a miraculous economic development from the ruins of the Second World War.
This economic success was made possible by the Japanese developmental state that
fiercely protected the domestic market and actively orchestrated the overall economic
development process in close collaboration with bureaucracy and big business (Cumings,
1999). The continuing triumph secured the country recognition as the second largest
economy in the world. Superior competitiveness of Japan even fostered a cautious
prediction among economic specialists that it would be the new economic paradigm that
newly developing countries would emulate (Vogel, 1986). Entering the 1990s, such an
optimistic outlook was shrouded by dark clouds. After the "bubble economy" burst in
1991 and 1992, the country entered a vicious cycle of economic recession and stagnation
as personal consumption and investment remained depressed and economic growth rates
fell.

As Katz (1998) aptly stated the Japanese development system "soured" because it failed
to evolve and move on. The once impregnable Japanese businesses were struggling with
a mountain of bad debt that had engulfed numerous financial as well as corporate
institutions in Japan. The failure of the government to take opportune and effective
actions had grave repercussions as the economy sank into an even deeper tangled web of
interrelated problems. Persistent economic deterioration sparked a heated debate within
Japan over the urgent need for thorough structural reforms including government
administrative reform, corporate restructuring, and economic deregulation. However, the end of the Liberal Democratic Party (LDP)'s long dominance in 1993 brought about a volatile political environment in which effective policy making through the traditional "consensus" mechanism was no longer feasible, further complicating the future of economic reforms. Increasing public discontent pressured the government to embark on comprehensive deregulation and before Koizumi the Hashimoto (1996-1998) and the Obuchi governments (1998-2000) tried to change the resolutely problematic Japanese system by passing important legislation but with mixed results. Why has the implementation of necessary reforms been so difficult in Japan?

4.2 The Iron Triangle and Vested Interests

One of the most important factors responsible for the same is the central importance attached to "the state", the fact which makes Japan so powerful economically and so different from other industrialized countries. At first glance, this may seem odd, because the constitution provides for many institutions and practices that are quite similar to those in other democracies (Irwin and Kroszner, 1999). However, once we peek below the surface, the distinctiveness of the Japanese state with its iron triangle of bureaucracy, LDP, and big business shines through. This drives home one of the most important lessons about comparative politics that, constitutions are not always a good guide to what political life is really like. The most distinctive feature of the Japanese is not included in the constitution or any statute the informal links between senior civil servants, top business executives, and LDP politicians, are far more extensive than those in any other democracy (Colignon and Chikako, 2001). For at least two reasons, bureaucrats, not politicians or big business, generally have set the policies that have made Japan an economic giant. As is the case in most countries today, civil servants draft most legislation that is eventually passed. More importantly, most leading LDP politicians and corporate executives are themselves former civil servants, hence the term iron triangle (Stockwin, 1984)
The elitist tendencies are far more integrated in Japan than its equivalents in any other democracy. The LDP has provided far more continuity in personnel (except at the very top) and policy. The bureaucrats exert a more powerful influence over both partisan politics and big business than their counterparts do in any other industrialized democracy. (Aberbach, Putnam, Robert and Bert, 1981). The bureaucrats themselves form the most unified civil service in the industrialized world in terms of their policy goals and self-definitions. And Japanese big business is the most integrated and thus most able to act in a coherent and coordinated way. These informal mechanisms have not changed very much since the dramatic political events of 1993 or the East Asian economic crisis of 1997-98. The iron triangle may not be as strong as it was in its heyday. By 1993 career politicians were already challenging the former bureaucrats for power in the LDP, and today the bureaucrats themselves are being subjected to more criticism. The business elite are probably less homogeneous because the leaders of small companies, who do not have bureaucratic experience, have gained more leverage and visibility. Still, all the signs suggest that the bureaucrats’ current and former remain very powerful and may have become even more so in the short run, given that they are the one source of certainty and continuity at a time when the party system and the economy are in flux.

Figure 8: The Iron Triangle in Japan
The Iron Triangle is the Japanese System consisting of the politicians, Big Business and Special Interests, and the bloated bureaucracy. Each is engaged in a tug-of-war for their own interests. The politicians want re-election, the bureaucrats want cushy jobs and bigger budgets (and fight reform and any attempt to streamline themselves out of a job) and Big Business/Special interests want protection, public works projects, subsidies, and freedom from the other two groups meddling. And each coddles or lambastes the others to get what they want. The bureaucratic ministries themselves are often at war with each other, with one department or ministry fighting another in turf battles (Yumiko, 2000). The winner gets more clout and a bigger budget. What happens when something goes wrong? Each side points their fingers at the other, and plays the blame game. Since Japanese ‘do things by consensus, getting a consensus means a lot of negotiation and horse-trading (nemawashi). In Japan even the smallest problem must turn into a major crisis before something is done about it. Even if some reform is passed, it’s up to the bureaucrats to implement it; and by tacking on numerous procedures and red tape (called gyosei shido, or “administrative guidance”) they can severely water down its effects (Kerbo and McKinstry, 1995). People vote for politicians who can bring home the most pork. Against this background, it is important to analyze the reform efforts of various premiers and the resistance they met especially by the vested interest groups, big business and politicians.

One major reason for Japan’s revolving-door political leadership may be efforts by the power elite in various sectors to protect their vested interests by putting off structural reforms. In this sense, the successive prime ministers have been made their scapegoats. To many people, deregulation and administrative and fiscal reforms will put an end to the age in which they have been able to enjoy their vested interests for years (Thayer, 1969). Put another way, structural reforms will force every member of the nation’s mainstream to meet the challenges arising from a new era of great competition by renewing their ways of thinking and improving their abilities. Undoubtedly, members of the

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3 The Japanese have very different ways of conducting business meeting. Before a formal meeting starts, participants have already drawn conclusions regarding information to be presented at the meeting. This is called nemawashi (prior consultation). The original meaning of the word is to smooth around roots before planting. This system was developed to avoid discrepancies, and gain agreement from everyone in advance, when making a decision in formal meeting. It is also to keep the relationship harmonious
bureaucratic, business and other establishments recognize the need to promote reforms. After long enjoying their vested interests\(^4\), however, they want to put off carrying out reforms in a manner that would adversely affect their own circumstances. Instead of grappling with reforms, they insist that their prime minister is to blame for the lack of progress in reforming their country. Consequently, they deceive themselves into believing that they are keeping up with the changing times by taking it for granted that one political leader after another has had to be replaced as prime minister over the past decade.

### 4.3 The 1955 System and LDP Dominance

Journalists and academics have referred to the period from 1955 to 1993 as “the '55 System" which was another factor responsible for the reform fatigue in Japan. During these years, the LDP was the dominant party, but at the same time, it was decentralized and fragmented, had weak prime ministerial leadership, shared policy-making influence with the elite national bureaucracy, and was confronted by the main opposition party, the leftist Japan Socialist Party (an early rival, but by the 1980s, not a threat to power). During this period, Japan had a single nontransferable vote multimember district electoral system (Cox and Nieu, 1994).

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\(^4\) The emphasis on consensus in Japanese politics is seen in the role of interest groups in policy making. These groups range from those with economic interests, such as occupational and professional associations, to those with strong ideological commitments. In the postwar period, extremely close ties emerged among major interest groups, political parties, and the bureaucracy. Many groups identified so closely with the ruling LDP that it was often difficult to discern the boundaries between the party and the various groups. Officers of agricultural, business, and professional groups were elected to the Diet as LDP legislators.

\(^5\) In the party politics of Japan the “1955 System” or “1955 setup” has played a greater role in overall development of Japan. In this ‘system’ or ‘setup’ the reunification of the Japan Socialist Party (JSP), which had split since 1951 and the merger of two conservative parties (Japan Democratic Party and Liberal Party) led to the formation of Liberal Democratic Party (LDP) in November 1955, was called “1955 System or setup”, dominated by two parties actually. Which resulted later in “one and half party system” since the LDP had about two-times more seats than the opposition party JSP, in the Diet.
Under these conditions, many factors helped keep the LDP in power, even though the party was not terribly popular with a majority of the deeply politically divided Japanese. Indeed, the LDP's vote share declined monotonically from 1955 until 1980, but the disintegrating of the opposition allowed the LDP to maintain a majority (Scheiner, 2005).

In addition, the electoral playing field was not exactly equal: mal-apportioned districts allowed rural voters, who were generally strong supporters of the LDP, to give the party more seats than it otherwise might have received.

Other factors played a role as well. As Ethan Scheiner has pointed out, Japan's fiscal centralization and unitary state encouraged clientelistic relationships, which the LDP took full advantage of in order to mobilize support. Competing LDP representatives in each district developed patron–client relationships with local assembly politicians and served as “pipelines” to bring pork-barrel benefits to local voters, especially to conservative strongholds in rural areas. The LDP also developed relationships with powerful support groups that generated votes for the party: postmasters (influential in rural communities), farmers, and construction workers (Woodall, 1996).
As Figure 10 shows, when we look at the vote share of the LDP and the first opposition party, the LDP was winning just about twice as many votes as the first opposition party won up until 1990. However, since 1993 the LDP has had difficulty in maintaining an advantage over the first opposition party. In fact, in 2003 the vote share of the LDP in the PR system was lower than that of the Democratic Party of Japan (DPJ). However, a landslide victory of the LDP under PM Koizumi’s leadership in 2005 reversed the trend of the LDP’s declining vote share.

The elite national bureaucracy implemented industrial policies that facilitated rapid economic growth after the 1960s and created affluence, employment, and surplus expenditures that could be distributed through these networks (Koh, 1989). With low crime and unemployment rates, and with ever-increasing collective and individual goodies sent down the political pipeline, the LDP seemed a good bet for many Japanese to entrust their government to.
Being in possession of parliamentary majorities most of the time, the main challenge the LDP faced in the executive dimension did not concern coordination processes in the cabinet or the Diet, but rather intra-party management. Here, factions (habatsu) played a major role (Cheol Hee Park, 2001). These increasingly institutionalized power groups assumed tasks in the areas of candidate nomination, the acquisition of funds, and the allocation of party and government posts. The factional system inside the LDP was guided by a set of informal norms that determined in particular how cabinet and party posts would be distributed according to criteria of proportionality and seniority (Sato and Matsuzaki 1986). From the 1970s onwards, the LDP’s institutionalized factional system served as an effective functional equivalent of formalized procedures and norms of party management. Arguably, the factional system contributed to the channeling and the stabilization of competition and the flow of information inside the LDP (Curtis, 1988). Informal rules on how party and cabinet posts were to be allocated made the political careers of LDP Diet members more foreseeable and helped to reduce uncertainty. Intraparty tensions on matters of personnel could thus often be reduced to the unavoidable minimum. In sum, institutionalized informal rules had an integrative effect largely counteracting the natural centrifugal tendencies of factionalist party fragmentation (Reed, 1991).

The institutionalized factional system also served as a sort of a ‘checks-and-balances mechanism’ vis-à-vis the power of the president and the executive of the LDP. From the viewpoint of efficiency and accountability, this can be judged negatively, but inside the LDP, this restraining of the party’s core executive was seen by many in a positive light. Changing factional alliances led to a fair degree of pluralism inside Japan’s dominant party (Richardson, 1997). From a normative perspective, this can be evaluated ambivalently. Certainly, changing factional alliances are not a genuine alternative to real turnovers in power. It can also be criticized that faction-induced pluralism did not increase the participatory opportunities of Japanese citizens. In any case, faction-induced dynamic competition and the existence of intra-party alternatives—in the form of different faction leaders, increased the flexibility and adaptability of the LDP in the face of new
demands and challenges and thus contributed to the long dominance of the party in Japanese politics (Pempel, 1990).

Japan's LDP has not been immune to such dynamics. The chain of large-scale corruption scandals in the late 1980s and early 1990s was a warning sign in this regard (Mauro, P. 1995). In the end, however, it was an intra-party conflict, and thus a problem in the realm of executive dominance, which brought the LDP down in 1993. After parts of the former Tanaka faction left the party, the LDP lost its majority in the July 1993 Lower House election. A seven-party coalition led by Hosokawa Morihiro was able to assume power. But after only 10 months in opposition, the LDP benefited from tensions inside the coalition government which brought the party, assisted by its former political adversary, the Socialists (now Social Democrats), back into government. In 1996, the Liberal Democrats recovered the post of prime minister.

The moderate ideological orientation of the LDP now became a major advantage for the party in terms of executive dominance. Forced by the loss of their own parliamentary majority into entering coalitions, the LDP made the most out of its coalition potential by allying itself with the Social Democrats (1994-1998), the New Komeito (since 1999), and some other smaller parties. The short intermezzo of the Hosokawa government however had long-term consequences. Reforms enacted in early 1994 brought about a new hybrid electoral system, which due to its strong majoritarian component makes turnovers in government easier. Moreover, the reform of political financing contributed to a significant decline of donations by the corporate sector, which at the same time was hit by Japan's economic malaise. The introduction of the new electoral system and new regulations concerning the financing of political activities weakened the central foundations on which the LDP's factions had been built. As a consequence, the intra-party groups lost cohesion and influence (Cox and Rosenbluth, 1996).

An important external threat to LDP rule evolved in the form of the Democratic Party of Japan (DPJ), which had been founded in 1996 and had absorbed a number of smaller parties in 1998, and developed into a serious contender for power. The Lower House
election of 2000 underlined the vote-gathering potential of the DPJ. In terms of defending its electoral dominance, the LDP was by now faced with a triple challenge. First, the DPJ proved to be an attractive alternative to the LDP. The Democrats managed to gain ground under the proportional representation segment of the new electoral system. In 2000, the DPJ won 47 of the 180 available seats; the LDP was only slightly more successful with 56 seats. In the 300 single-member districts (SMDs), the DPJ was also able to gain ground (Reed 2003b). The DPJ was particularly successful in winning over unaffiliated voters (mutohaso), which by now accounted for around 50% of the Japanese electorate (Tanaka and Martin 2003).

By the beginning of the new millennium, the LDP was in danger of becoming relegated to a rural party that had to rely mainly on the incumbency advantage of many of its Diet members and links with support groups at the local and national level (Reed 2003). In 2000, this combination was still effective enough to capture, in conjunction with its junior coalition partners, a majority in the Lower House. From a longer term perspective, it was however highly questionable whether this combination of factors would suffice to remain in power. Two further challenges put the electoral dominance of the LDP at risk. First, support groups at the national level were no longer able to mobilize the number of votes they were able to muster in the past. The Upper House elections in 2001 clearly showed the declining effectiveness of the ‘organised vote’ (soshikihyo) (Köllner, 2002). Even though the DPJ, because of its links to unionized interests, was also affected by this trend, it had less to lose as it had also been more effective in terms of compensating for this decline by mobilizing unaffiliated voters.

Considering the patterns shown in Figure 11 and Figure 12, we can decipher the following two points. First, the LDP’s electoral success was closely related with the size of organized voters who would favor the LDP. Second, the LDP was losing its organizational base or ability to mobilize the organized voters who would support the LDP. These speculations suggest that those organized voters who support the LDP, namely the principals, would be losing their control of the LDP Diet members, namely the agents, because the LDP was forced to reach out to other voters to maintain its
governing power. Therefore, we need another explanation, or at least a supplementary explanation, to fill the gap between the shrinking organization of the LDP supporters and the persistence of the LDP government.

Figure 11: Percentage of Different Kinds of Organised Votes, 1972-2003
A third challenge to LDP electoral dominance was potentially even more problematic than the declining effectiveness of the 'organised vote'. The problem was Japan's stagnant economy. As the economic pie was getting smaller in Japan, the LDP faced increasing problems with regard to rewarding the members of its 'grand coalition'. The glue binding together the LDP and its various interest groups was bound to diminish in this process. During the latter half of the 1990s, LDP leaders were happy to ignore this challenge and continued to engage in governmental bounty, which benefited traditional party supporters. In view of the rising mountain of public debt, however, this approach was untenable. In sum, the LDP's electoral dominance was clearly under threat by the turn of the century.

In this kind of environment, the LDP selected in 2000 a new party leader: Mori Yoshiro. Mori's disastrous performance in office his gaffes provided continuous fodder for the opposition sent cabinet support rates into free fall and imbued the party with a sense of
crisis. To polish the image of the LDP which has been tarnished by the back-room selection of Mori, the party decided that his successor would be chosen in an open election in which the LDP’s regional federations would be given increased voting power. Individual prefectural associations of the party decided to further the democratic appeal of the election by having their respective votes decided by primaries. This triggered a bandwagon effect, with many other prefectural associations following suit. Fearing a defeat in the upcoming Upper House election in 2001, party members voted overwhelmingly for Koizumi who appealed directly to them on the basis of his image of freshness and change. Koizumi’s landslide win in the primaries induced a sufficient number of LDP Diet members to also vote for him, ensuring his election as the party’s 20th president in April 2001 (Lincoln, 2002).

4.4 LDP Dominance in the Postwar Period

There are three existing explanations for the LDP dominance in the Japanese postwar period.

4.4.1 Institutional Explanation: Explanation based on Electoral Institution

First, the rather traditional or general institutional explanation suggests that the Japanese SNTV electoral system with multimember districts fostered the LDP dominance in the general elections. Another argument maintains that malapportionment of seats over different districts created an advantage for the LDP. While the numbers of eligible voters in urban districts are much larger than those in rural districts, the numbers of seats for urban districts were only 1 or 2 seats more than those for rural districts. As a result, the LDP, which is popular in rural districts, has been able to win seats with fewer votes, (Christensen and Johnson, 1995). Therefore, the explanation based on postwar Japanese electoral institution has some validity in explaining the LDP dominance, but it cannot fully explain why the LDP stayed in power from 1955 to 1993, and why the LDP managed to stay in power even after 1993 (Scheiner, 2006).
4.4.2 Political Culture Explanation

The second explanation for the LDP dominance is the political culture explanation. Analysts have believed that the Japanese voters were raised in traditional Japanese political culture that socialized them into compliance with authority. Therefore, Japanese voters who subscribe the traditional cultural values are more likely to entrust the incumbent government and less likely to throw the incumbent party out of the government. Those Japanese who would be more submissive to political authority were more likely to vote for the LDP. This provides some supportive evidence for the political culture explanation.

4.4.3 Political Economy Explanation: Clientelism with Centralized Fiscal Structure

The third explanation for LDP dominance is that the party delivered pork to the supportive constituencies, and attracted votes in return. Ethan Scheiner (2006) persuasively demonstrated that the LDP as the incumbent party has been able to control budget allocation, subsidies allocation, and policy making. Consequently, the LDP could allocate benefits to loyal LDP supporters to attract their votes. Kent Calder (1988) presented a similar theme in terms of macro-level phenomena. But, Scheiner (2006) analyzed the micro-level (individual-level) survey data, and showed that the LDP attracted votes from those Japanese who would receive benefits (or pork) from the LDP’s allocation of money or policies made by the LDP. Scheiner argued that the LDP has tried to implement specific policies that are beneficial only to the districts/areas or to particular industries such as agriculture or retail-stores. This pork-barrel politics was also pointed out by Ramsayer and Rosenbluth (1993) who argued that the Japanese electoral system of SNTV with MMD fostered the pork-barrel politics of the LDP. Scheiner (2006) rejected this connection, as he maintained that the LDP retained the same strategy even after the new electoral system was introduced in 1996 (i.e., the single-member district system with proportional representation).
4.5 Prime Minister and Vested Interests

Premiership in Japan has been assumed by politicians at extraordinarily brief and irregular intervals, while bureaucrats, as well as executives at major corporations and government-affiliated organizations have done little to change their conventional systems for routine personnel changes (Aberbach and Rockman, 1978). It is even more disturbing to see that just about every member of the establishment has learned to regard personal attacks on the prime minister as acceptable, perhaps in an attempt to conceal their own efforts to protect their interests even at the expense of necessary reforms. What would happen to a political leader who earnestly sought to promote deregulation and administrative and fiscal reforms? Such a prime minister would be considered the ultimate threat to the iron triangle of vested interests.

Naturally, that prime minister would lose popularity among the power elite. In that event, the prime minister would have to spend a great deal of time intensely fighting members of the establishment who do not share the goal of reforming the nation. This would eventually isolate the prime minister from voters (Shinoda, 2000). Former Prime Minister Ryutaro Hashimoto is probably an excellent example in this regard. Before stepping down in disgrace, Hashimoto sought to carry out thorough administrative and fiscal reforms. The Japanese public refused to allow him to demonstrate his leadership at a time when they should have done so in the struggle for structural reforms.

Another factor contributing to this is the shortened political life expectancy in Japan, somewhat differs, in essence, from the reasons mentioned above. It is worth thinking about what kind of life is available to prime ministers and presidents elsewhere in the world after leaving office. It is possible for foreign prime ministers and presidents to become advisers to major corporations and think tanks if they quit politics. They may also be able to enjoy honorable positions gained through their ties with economic circles and other sectors of society.
In Japan, however, most such positions have been taken up by retired bureaucrats (Yoda, 1997). The political community is the only place for a retired prime minister to stay, by remaining a Diet member. Given this, a former prime minister will seek to continue exercising political influence behind the scenes. This explains why retired Japanese prime ministers have often worked to exercise power in the selection of their successors and in running the administrations led by new prime ministers. The more prime ministers a kingmaker produces, the greater power he will exercise.

That is to say, the kingmaker can benefit himself by producing many prime ministers. In addition, allowing one prime minister to remain in office for too long will undermine the interests of the kingmaker. Doing so would encourage the prime minister to become arrogant and eventually grow into a political leader whom kingmaker cannot control. Not surprisingly, a former prime minister who feels shortchanged after having served in his position for a brief period desperately seeks to exercise influence behind the scenes (Kohno, 1992). This only serves to allow his successor to stay in power for a short period in what amounts to a vicious circle. Meanwhile, a former prime minister who cannot continue to exercise that kind of power chooses to form a new political party or group. This could shake the foundation of long-established political parties and encourage politicians to create a number of small parties, a development that could continue as an endless game.

Politically, it is the political entrepreneurship\(^6\) of key leaders such as Hashimoto Ryutaro, Kato Koichi, Yamazaki Taku, Yosano Kaoru, Obuchi Keizo, and Koizumi Junichiro that tipped the scale toward some of the most significant structural reforms. At the same time, their ability to act has been more constrained than in countries such as France and Korea, due to lower political autonomy within the dominant party, coalition, and legislature. The key mechanism to break such deadlocks over uncertainty and tip the system toward institutional change is political leadership. Post-1996 political leadership comes in two

\(\text{\footnote{A political entrepreneur refers to a political player who seeks to gain certain political and social benefits in return for providing the common goods that can be shared by an unorganized general public. These common goods that political entrepreneurs attempt to provide to the populace generally include foreign- and domestic-related public policy, while the benefits they hope to gain involve voter support, public recognition, and personal popularity}}\)
forms. The Hashimoto and Obuchi pathway until 1999 is one of traditional factional control over the main party (LDP) and intra-LDP grand bargains. Under demanding conditions, this pattern produced significant change but with great constraints and limits. The post-2001 Koizumi pathway is a more institutionalized prime ministerial leadership in the wake of significant administrative reforms and party leadership rules.

4.6 Resistance and Reforms before Koizumi

With this background, it would be possible to explain the nature of reforms carried out during the various administrations and the resistance they met with in the course of its implementation.

4.6.1 Hosokawa Government (1993-94)

Political institutions have played a major influencing role traditionally in the Prime Minister’s actual decision-making processes. In this sense, Japan after 1993 was marked by the PMs’ incapability to regulate or balance political and economic conflicts, which was caused by the break-up of the ruling conservative Liberal Democratic Party (LDP) in 1993 (Crespo, 1995). After its break-up, the coalition of eight parties established the first non-LDP-led government, the Japan New Party (JNP), under Hosokawa Morihiro’s leadership. Right after taking power, the new Premier made a strong commitment to break the collusive relationship between the elements of the “iron triangle” and promised full-scale administrative reform, aiming at making government more accountable to the people (Nakano, 1998). In terms of executive-party relation, with the end of the LDP dominance, the Japanese politics, saturated with the factions and zokus, seemed

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7 The policy tribalists (zoku giin) are those LDP legislators who have “a considerable amount of influence in a particular area of government policy and enough seniority in the party to have influence on a continuing basis within the ministry responsible for that policy area” (Curtis 1988, 114). The LDP’s first policy tribe, the public works tribe, was formed in 1956 when Tanaka Kakuei led a walkout of parliamentarians from a policy deliberation meeting (Campbell 1977, 119). Over time, the number of tribes grew to about a dozen: construction, commerce and industry, agriculture, fisheries, transport, welfare, labor, education, posts and telecommunications, finance, national defense, and foreign affairs. Each tribe also has a number of branches. Policy tribalists are the most influential legislators in any given sub-government. Some observers believe that the expertise and influence acquired as a result of long years of service in a specific policy area enable the LDP’s policy tribalists to “match and even dominate” their peers.
weakened. In fact, the Hosokawa government tried to employ a different approach of more centralized, top-down decision-making and administration. As it turned out, the Hosokawa government had to go through "quarreling" and "arguing" among eight different coalition members, in which partisan interests or ideology impeded effective resolution. In addition, the ouster of LDP also brought Japanese bureaucrats as the center of policy influence (Curtis, 2002). The tentacles of interference were most severe in those ministries where an inexperienced politician with no or little field experience led the ministry as its head. Well aware of the close, prolonged ties between zoku members and bureaucrats, Hosokawa tried to sever involvement among politicians, bureaucrats, and businesses and to end zoku politics. However, his ruling party ended up relying even more heavily on the bureaucracy than the LDP. For instance, in the area of deregulations, despite a series of reports and recommendations, there was no substantial process in terms of reducing the number of regulations by the ministries and their organizational size due to the lack of strong and committed political leadership on the part of ministries and agencies.

Hosokawa's new "national welfare tax" proposal, which was formulated up by the bureaucrats of the MOF with collusion with his few close political associates is another example. Because coalition partners resisted the top-down style of decision making, they were not consulted beforehand and the proposal was adopted by the Hosokawa in the government bureaucracy (Schoppa 1991, 79). In addition, tribalists act as brokers in transactions involving the LDP and specific government agencies. This role often extends to the mediation of sectionalist turf wars between government ministries as well as fighting alongside bureaucratic allies in such disputes (Johnson 1989). Furthermore, tribalists play a leading part in shaping and securing passage of policy and budget proposals. In late August, the most hectic stage of compiling ministerial budget proposals, tribalists become the focal point of the "root binding" efforts of government bureaucrats eager to secure larger allocations for their ministry or bureau. In the compilation of the 1987 budget, for example, each bureau chief, deputy chief, and section director in the MOC was assigned to contact about twenty LDP parliamentarians during a period spanning several days in late August. Special care was taken to secure the acquiescence of key members of the construction tribe, particularly its "big bosses".

8 Trying to convince an electorate that raising taxes is a good idea was demonstrated well in the increase in the consumption tax levy from 3% to 7% by Prime Minister Morihiro Hosokawa in February, 1994. The conflict in the bureaucracy over the Hosokawa "welfare tax" was caused because the Ministry of Finance didn't consult with the Ministry of Home Affairs before the announcement of the 7% tax rate. (Hiroshi, p.34) Tax policy reform is as much to do with administrative co-operation as it is to do with electorate acceptance.
administration without any serious review. The fiasco ended up with his immediate withdrawal of the proposal. Since deregulation means the increasing constraints on the power and privileges of the bureaucrats, ministries and agencies were reluctant to make efforts to reform on their own initiatives and exhibited negative attitudes, and despite strong public support Hosokawa’s reign ended within 9 months (Bowler and Donovan, 1995).

4.6.2 Murayama Government (1994-96)

The policy tribe, which had to some extent weakened during the Hosokawa administration, once again resurfaced and the LDP partially regained its power within the new coalitions. In fact, their politics, under this coalition government became stronger than that of the LDP before 1993 due to the increased electoral competition even within the coalition government. For example, the agricultural interests of the Socialist Party took advantage of the situation for the purpose of winning electoral support, and insisted on a higher price more stubbornly than did their peers from the LDP. Agricultural zoku members pressured the Murayama government to increase the government subsidy to compensate farmers for the opening of the Japanese rice market. As a consequence, the MOF proposed a total amount of 3.5 trillion yen. The tribe members, dissatisfied with this figure, threatened to compromise other pending bills and the Murayama government had to nearly double the amount of agricultural compensation to 6.1 trillion yen (Shinoda, 2000).

The resurgence of zoku influence on the policy-making process constrained the PM’s capability to pass through bills, inspite of some small successes In fact; it was the PM himself who delegated most of the decision-making power to these policy tribes. As the case of rice subsidy settlement showed, when they felt unsatisfied, they did not hesitate threatening the government with policy retaliation. This victory marked their successful resurgence under the coalition government, which was further developed under the next cabinet led by the leader of their own party.
4.6.3 Hashimoto Government (1996-98)

The thriving revival of these policy tribes was further developed by the cabinet under the Hashimoto administration. Despite big ambitions for renewing the Japanese political system, Hashimoto found himself bound by zokus and factions that supported or balked at important policy issues in accordance with preferences. This hypothesis is supported by the fact that Hashimoto achieved some policy success where their influence was none or limited. In addition, the circumstances surrounding the coalition government also put him in a weaker position because during the LDP dominance, the premier only needed an effective intra-party coordination and leadership nomination process. However, with the coalition formed, added to this, he also needed an effective coalition coordination mechanism among the different political parties. With the deepening of economic problems owing to the accumulation of bad debts and simultaneously increasing policy gridlocks, the Japanese government was in fact placed in a quandary that seemed likely to further drag it into an inescapable quagmire. Under the Hashimoto administration, the sale of tainted HIV blood became a huge issue. Hashimoto himself also realized the evident fury among the Japanese public and as such, in the wake of the LDP's victory in the 1996 general election, Hashimoto promised the public to pursue "administrative reform" and to limit the powers of the bureaucracy. As Brown (1999) points out, the administrative reforms have been used as a way of "retaliation" by political parties, and for those who were largely ignored by the bureaucrats, especially the MOF, the end of the LDP's dominance over the Japanese political scene provided them with a golden opportunity to revenge the bureaucrats' past indifference. From the outset of his administrative reform, Hashimoto exhibited a strong determination to rule over the bureaucracy by streamlining its organization and limiting its powers by delegating them to local governments. In order to effectively handle the matter, he formed the Administrative Reform Council (ARC), a governmental policy deliberation council, as

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9 In November 1996 soon after the general election, the Administrative Reform Council was established under the leadership of Prime Minister Hashimoto. Headed by the Prime Minister himself, which is very rare for such an advisory body, its mission was to study the roles and functions of the government for the 21st century, to examine how the central government Ministries and Agencies should be reorganized, and to consider how to strengthen the function of the Prime Minister and the Cabinet.

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his scaffold and had it submit proposals that specified the depth and width of a subsequent government reorganization plan directly to him. His control over the ARC was extremely thorough as he didn’t want any political influence from the bureaucracy or other politicians whether they may be from the ruling coalition or opposition parties (ARC, 1996).

Socialists and Sakigake Parties, which were also aware of public resentment towards the bureaucracy, didn’t put political pressure on the Prime Minister in terms of the administrative reform and also became a big helping hand. As a result of the bureaucratic reorganization initiatives undertaken by Hashimoto with the help of the Socialists and Sakigake Parties\textsuperscript{10}, big organizations such as the Ministry of International Trade and Industry (MITI) and Ministry of Finance (MOF), the twin towers of the Japanese bureaucratic structure, underwent some changes. Due to heavy criticism and resentment from the public and the strong will of the Hashimoto administration to reform, the bureaucrats tended to implicitly accept the indispensability of major reform ahead of them. However, Hashimoto’s reform showed inconsistency and lacked a genuine bureaucratic support base. In addition, ministerial disputes prevented effective administration on occasion as different ministries colluded with each other to resist any changes that might curtail their power source.

\textsuperscript{10} The Sakigake Party grew out of the New Party Sakigake, a party which was created in 1993 by members who broke from the Liberal Democratic Party (Japan). In 1996 some liberal members of New Sakigake joined the fledgling Democratic Party of Japan. The exodus of these liberal members moved the party further to the right. As part of the ruling coalition in 1998, it had 2 seats in the House of Representatives and 3 in the House of Councillors. In October 1998, the party reformed itself with a more conservative image, dropping the ‘New’ from its title to become simply Sakigake. Its popularity heavily declined after that, and by 2001, the party had no seats in either the Lower or Upper House. In 2002, the ecologists took control, and turned the party into an ecologist party. It changed its name to Midori no kaigi, which, because it won no seats in the 2004 Parliamentary elections, dissolved itself on July 22, 2004, spelling an end to the whole Sakigake movement in Japanese politics. The party gained most of its support from white collar workers and ecologists, and on domestic policy was right-wing conservative, as well as reformist, ecologist. The party is now defunct.

Obuchi took over the premiership after Hashimoto, in the midst of all these economic plights. Although he started with the LDP single ruling party after surmounting initial low public expectations, later he needed partisan support from other parties and formed a coalition government with the Liberal Party to pass government-sponsored bills ranging from administrative to financial reform plans in the Diet session. The new administration’s immediate responsibility was to take care of administrative and financial reform bills that had been passed over from the previous Hashimoto administration. Regardless of the real effectiveness of those bills, Obuchi proved his skill as a political mediator by passing 17 crucial financial and banking bills, which was scheduled to effectuate on January 2001. Two features stand out. First, he enjoyed independence from the bureaucracy by establishing different policy advisory councils and committees at his service. In the first place, the Economic Strategy Council and the EPA, which were headed by candid critics of the bureaucracy, were willing to reverse the decades-old rigidity of the bureaucracy. He also set up three reform-minded crucial commissions—the Economic Strategy Council\textsuperscript{11}, the Industrial Competitiveness Council\textsuperscript{12} and the Commission on Japan’s Goals in the 21st Century\textsuperscript{13}—for the purpose of researching and recommending various reform measures.

\textsuperscript{11} He established the Economic Strategy Council in August 1998, shortly after his inauguration, as an advisory body comprising experts from the private sector and academia. The largest-ever package of emergency economic measures was drafted in fall the same year, earmarking a total of 27 trillion yen to stimulate economic activity. In addition, the Prime Minister adopted measures to stabilize the feeble financial system, including the introduction of a bridge bank system in October 1998 to find recipients of failed banks and to protect sound borrowers. This was followed by capital injections into poor-performing financial institutions.

\textsuperscript{12} The Industrial Competitiveness Council was launched in March 1999 to explore ways to revitalize the Japanese economy. Based upon discussions at these forums, the government drafted a set of emergency employment and industrial competitiveness measures in June 1999 to create 700,000 new jobs and to facilitate industrial restructuring.

\textsuperscript{13} The Prime Minister established the Commission on Japan’s Goals in the Twenty-first Century in March 1999, bringing together eminent figures from various fields to draw up a blueprint for Japan in the new century. Members discussed ways to create a nation of “wealth and virtue” from various angles. In January 2000, after 10 months of intensive debate, the Commission compiled a report containing medium- to long-term issues and policy measures for Japan, offering a basis for wide-ranging discussions among the Japanese people.
Obuchi also barred bureaucrats from answering questions in parliament in July 1999. In a related matter, he doubled the number of elected politicians within the bureaucracy to increase the control over policy-making. In doing so, he appointed twenty-two senior vice-ministers and twenty-six parliamentary secretaries, placing them in every ministry. With mounting public resentment toward the bureaucracy, there was little bureaucratic confrontation on these administrative reform issues except some issues from the MOF. In the area of financial reform, the Obuchi government's success lay in its passing a series of financial renewal bills and establishing a new monitoring system of the Financial Supervisory Agency under the Financial Revitalization Committee. Overall, legislative success of Obuchi was largely due to his effort of minimizing the influences from his own party members as well as from the bureaucrats. His heavy reliance on tactical deal-making with opposition parties and lack of strategic thinking sometimes became the target of criticism, but it was under his administration that realistic reforms began to be implemented. As his case has shown, where institutional constraints such as party, bureaucratic, business relations were controlled, the PM showed his capability to push through necessary reform measures. However, Obuchi was severely criticized from members of his own party and ministry officials because of his series of deals with opposition parties and for lavish government spending, which turned out to be ineffectual (Wakatsuki, 2001). The apprehension within the LDP became tighter with the upcoming LDP presidential election.

4.6.5 Mori Government (2000-01)

Mori became the 85th PM in April 2000 with the unexpected death of PM Obuchi. In terms of his relations with the party, Mori's post became the target of public distrust and qualm from the beginning as he was chosen through the secret meeting among the LDP faction leaders. Yet he managed to survive the June election and unstableness within the LDP seemed to settle down. However, his administration faced a difficulty once again as a mistress scandal involving his top aide Nakagawa Hidenao increased public resentment.
Worries about the prospect for the next election were circulated within the LDP, but general consensus was to support Mori. Kato, a political rival of Obuchi and now of Mori within the LDP, however, had a different idea. Gathering up his faction members, he announced that he would join opposition parties with the no-confidence motion. This was a clear-cut attempt to topple the Mori administration, which produced a serious inter-party controversy regarding the propriety of this action. Although the attempt of Kato was defeated in the Diet, his faction was divided into two factions, Kato and Horiuchi factions (Park, 2001). The public dissatisfaction also rose rapidly as the Japanese economic condition further worsened. However, his subsequent policy management was full of mismatches as the Mori administration approved a lavish spending of $35.3 billion for a public works package, the largest economic stimulus package issued in the past decade. It still protected industries such as construction, retail, small business, and agriculture. This pork-barrel tactics in regard to traditional LDP supporters were based on pure politics as it was employed in order to secure the minimum vote (Schwerin, 2002).

Figure 13: Trust in Government Institutions in Japan, 2000-2004
Trust in all institutions slightly increased from 2002 onwards. But the level is still low, especially for the central government and the national parliament. The local government gained more trust than the central level in particular. Though recent and reliable data is unavailable to compare the trust level between central and local level, citizens may trust more in local government than central government. Moreover, this implies that alleged declining trust in government is more entrenched in central government level. It has been argued that the reasons for continuing trust in local government lie in the role and function of local government. They have been providing the extensive variety of social services much more so than any other countries (Nakamura and Kikuchi 2006). The conservative way to investigate the importance of local governments in a national system of government is to measure its expenditure size. The size of local public expenditure and the number of local civil service in Japan are about three times larger than that of national level. Local governments are central actors in various social services, including school education, welfare and public health, police and fire services, and the construction of sewerage systems. These wide roles and functions of local governments involve a close relationship with the daily life of citizen. They fulfill a major role in citizen’s life. Contrary to the declining role of national bureaucrats and hardly seen their activities, citizens seem to have much a big stake in their local governments. Local governments in Japan have succeeded in developing a sufficiently broad based constituency for themselves (see King 2000). This account is partly verified by the fact that for most of citizens, civil service means the local civil service, not the national one.

In terms of his relations with the bureaucracy, the continuity of the reforms in Japan lost its momentum with Mori taking the power of the premiership. During his incumbency, the blunt-spoken PM was widely criticized for numerous impulsive remarks that insulted a variety of groups and more importantly, for his lack of experience in foreign policy. Japan’s major newspapers such as Tokyo Shimbun and Asahi Shimbun attacked the Premier as being “outstandingly clumsy” and the king of “ill-considered decisions and political blunders.” His failure to acknowledge the severity of problems caused him to lose public support, unprecedented in the history of Japan. With the skyrocketing disapproval rate, the LDP leadership began a movement to make him resign from the
premiership. In addition, the coordination system within the coalition party also seemed to wobble as some members within the New Komeito, one of the member parties in the coalition, secretly prepared to pull out of the coalition party (Wanner, 2000). Finally, after an avalanche of criticism from the political opposition and the national media, PM Mori resigned on July 30, 2001.

As the figure 14 shows, after Nakasone we see two phenomena occurring. First, the prime minister's (cabinet’s) image deviates from that of the party (although the two move in similar directions). Second, prime ministers with good media images and who identify themselves with clean politics and/or reform (Nakasone, Kaifu, Hashimoto, Obuchi) attain far higher cabinet ratings than prime ministers in the more traditional mold of traditional, faceless faction leaders (Takeshita, Uno, Miyazawa, Mori). This is true even though the less popular prime ministers are often also faction leaders and sometimes from the same faction as more popular ones (Takeshita and Obuchi/Hashimoto).

Figure 14: Cabinet and Party Support by LDP Prime Minister, 1960-2001
One way to interpret these trends is to see Japan as witnessing the beginnings of the "presidentialization" of the prime minister's role that has been noted in other industrialized parliamentary democracies. That is, the personalization of the role is increasingly important to voters. In this sense, the Koizumi phenomenon is not a singular aberration but the culmination and an extreme variant of a trend that has reforms—and is the product of the changing leader/electorate relationship as mediated by the media.

4.7 Reforms under Koizumi’s Premiership: 2001-2006

4.7.1 Koizumi’s relations with his cabinet

Reform-minded Koizumi, who received strong public and media support, was elected as the new PM in April 2001 after an erratic race among four major LDP factions. As his public support was really unprecedented in the history of Japan, the LDP reluctantly recognized Koizumi as their leader, afraid to lose this momentum and eager to use this opportunity to improve the party’s declining support (Amyx, 2004). Subsequently, he unfolded his reform vision aimed at remodeling Japan into a more “powerful, competitive, and taxpayer-friendly economy.” Under this slogan, he advocated structural reform plans, which included fiscal rehabilitation (including the problems of budget deficit and growing public sector debt), dealing with the nonperforming loans in the banking system, and public corporation reforms that included the abolition or privatization of 62 public corporations out of a total of 163, and reform of the postal banking system, and the acceleration of deregulation in the economy (MacDonald & Lemco, 2002).

Consequently, Koizumi formed his own Cabinet composed of pro-reform politicians. In the old days, it was customary for a Prime minister to appoint Cabinet members based on recommendations from each faction leader within the ruling party. However, Koizumi hand-selected his own members and disregarded the LDP party bosses to show his determination to bypass the informal, yet religiously followed 40-year-old governing

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14 According to Transparency International Japan was the world’s 18th least corrupt nation in a survey of corruption in 180 countries in 2008. It ranked 25th in 1999.
system within the LDP (*The Economist*, March 23, 2002). These series of foreign-investor friendly measures worked its magic and on May 12, foreign net purchasing of Japanese equities had hit a 17-month high while 427 billion net purchasing was dealt in one week. This positive sign also boosted the Nikkei index above 14,000 for the first time since late 2000 (*The Japan Times*, May 12, 2001). Recognizing him as their leader, however, does not necessarily mean that the LDP support these policies. Koizumi needed more and stronger partisan support than anything else in order to implement his reform projects, but ironically, it was the very political system that he promised to change. The Premiers, despite having to go through a millstone of coordinating different perspectives within the party, could rely on the support in the legislative process. With his party support dwindling, Koizumi has been had difficulties in the face of a swathe of reform initiatives.

It is not surprising that the reforms of Koizumi faced staunch resistance from members of his own party, looking at his reform proposals ranging from fiscal restructuring to the privatization or abolition of public corporations. As the LDP leader, he criticized the shortcomings of faction politics and advocated its disbanding, while at the same time urging candidates for the Upper House not to side with any particular faction, and to remain politically objective. He also championed the idea that the PM should be elected directly by the people, not by the parliament. Both suggestions worsened his relationship with faction leaders within the LDP. Moreover, Koizumi was trying to take on the very allies that the LDP protected for almost four decades, and many LDP members of the Diet feel unenthusiastic about proposed reform plans of Koizumi which would hurt supporters, especially in the inefficient and protected sectors of the economy. Having used him to improve the electoral chances of the party in the upper house, these LDP members many of them in the long-dominant Hashimoto faction were likely to use every opportunity to delay and sabotage his initiatives (Schoppa, 2001).

The fissures between the Prime minister and the LDP’s largest faction members (the Hashimoto faction) became publicized through a series of policy-making processes. In fact, it had been a daunting task for Koizumi to overcome the resistance in every policy
area from banking reform and deregulation, to issues of privatization and reduction of public-works spending. For instance, as the world economy hit a slump due to worldwide recession and the terrorist attacks on the United States in September 2001, the LDP members pressured Koizumi to abandon his pledge to limit the issue of new government bonds to 30 trillion yen in 2001. They wanted Koizumi to change his priorities from structural reform policies to measure to revitalize the worsening economy. After intense internal struggle, Koizumi managed to maintain the 10-trillion-yen cap, but only by using non-bond sources of funding for the second supplementary budget (Mulgan, 2002). In a similar vein, the LDP politicians who developed a close connection to road-related industries opposed proposals of Koizumi to free up taxes that had been used as political pork barrels, among which road construction was the most beneficiary. The initiative was designed in order to break off indiscreet government spending on roads which were a golden market for politicians in terms of electoral as well as financial resources. Therefore, the LDP members representing road construction interests vehemently objected to the plan stating that “they would hurt local government independence.”

The reluctance of the conservative LDP members to cooperate with the Koizumi administration was evident in the dismissal of Foreign Minister Makiko Tanaka in 2002. As the first woman that took one of the highly influential posts in the Diet, she was very popular among women voters. In fact, she was one of the few members within the LDP that had supported the presidency of Koizumi from the beginning and her reform mindedness and close connection with Koizumi put her in the Foreign Minister post. Since January 2001, the foreign ministry had been the target of a series of investigations involving the long-running embezzlement of discretionary funds by ministry officials. In the midst of intense public reproach the strong presence of Tanaka in the ministry and her

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15 Makiko Tanaka born in Nishiyama, Niigata, on January 14, 1944 is the daughter of former Prime Minister Kakuei Tanaka. She was the first female foreign minister of Japan, from April 2001 to January 2002, but was fired from the cabinet after making remarks critical of Prime Minister Junichiro Koizumi. Later that year, she was kicked out of the ruling Liberal Democratic Party (LDP) and barred from party membership for two years. In August of 2002, Tanaka resigned from the Diet after allegations that she had embezzled her secretaries' civil service salaries. A Tokyo court cleared her in September, and she ran for the Diet again as an independent in November 2003. In August 2009, Tanaka and her husband joined the opposition Democratic Party of Japan. Currently, she is the chairperson of the Committee on Education, Culture, Sports, Science and Technology of the current Diet session.
efforts of cleaning up the ministry were disliked by bureaucrats, who openly and boldly defied her orders. Moreover, powerful members of the LDP willingly interfered in the ministry business and even attempted to impose their stamp on foreign policy. Forced by these conservatives in the LDP, Koizumi forced Tanaka to resign over a trivial issue. The ouster of Tanaka at the hands of LDP conservatives disappointed the public and subsequent public support went down from 85.6 percent in December 2001 to 55.6 percent in early February 2002 (Mac-Donald & Lemco, 2002).

In terms of financial reform, on assuming the premiership, Koizumi promised: first, a complete resolution of NPLs that had been passed down from previous administrations; second, the withdrawal of government’s full guarantee on term deposits and demand of deposits at banks. Notwithstanding the initial fanfare, however, the reform results seemed limited. The disposal of NPLs was nothing but a “stopgap” and in managing the problems, the government kept conceding to the opposition from the banks and the LDP politicians, setting 2-3 years of an “adjustment period” in which banks could clear their bad debts with some latitude. Even those measures were on halt as lawmakers within the LDP branded them too harsh (Wall Street Journal, Oct. 24, 2002). Conflicts also ensued in the area of the privatization or elimination of government corporations. The original plan of Koizumi was to reduce the number of public corporations by 101. However, as a result of policy concessions and negotiations within the LDP policy circle, out of 62 public corporations that were scheduled to be abolished or privatized, only 17 corporations were to be abolished and 45 others remained to be privatized over lengthy periods of time, and Koizumi apparently extracted a promise to abolish the Housing Loan Corporation.

4.7.2 Koizumi -Bureaucracy Relations

Koizumi has also faced some confrontation from the bureaucracy, in addition to anti-reform voices within the LDP. Because the main objective of administrative reform based on budget control, reorganization and deregulation was aimed at weakening the power of the bureaucracy, the bureaucracy was dragging its feet on reforms. First, in terms of
budget control, Koizumi largely depended on the expertise of and support from the MOF. His previous political experiences as a minister taught him to work with established ministries in order to effectuate his initiatives, rather than going head on with them. The Koizumi-MOF alliance emphasized rebuilding the national financial health was based on fiscal austerity. However, other ministries and LDP members criticized this arrangement and resultant policy output as “narrow-minded,” ignoring the interests of other ministries and limited to the perspectives of few ministerial interests. Although Koizumi was able to achieve some fiscal reforms and to effectuate a series of drastic budget cuts as a result of the bureaucratic support and initiative stalking from “within,” “the sum total of Koizumi’s reforms amounts to little more than cuts in government spending” (Mulgan, 2002).

In the matter of government reorganization, Koizumi was able to reduce the governmental ministries and agencies from twenty-two to twelve, while empowering the Prime Minister’s Office, which was renamed as the Cabinet Office. Koizumi also established a system of Independent Administrative Institutions (IAIs) as of April 1st 2001\(^{16}\), to enhance the transparency and effectiveness in policy-making processes. By separating the process of implementation, planning and drafting of policy and by assigning aspects of implementation to IAIs, Koizumi tried to diminish unfavorable effects that collusive behaviors would have.

The government reorganization initiative has also had a share of bureaucratic resistance. As Law argues, the administrative reform process is destined to face such turbulence because it gives virtual veto power to the bureaucracy itself. Because the bureaucracy is the integral part of the administrative reform, the PM initially agreed that any reform

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\(^{16}\) Until recently, the Japan International Cooperation Agency (JICA) was a quasi-government organization administered by Japan’s Ministry of Foreign Affairs and responsible for implementing technical cooperation programs abroad under Japanese Official Development Assistance. Only 28% of ordinary Japanese recognized JICA and even fewer knew its role. Prime Minister Junichiro Koizumi’s administrative reforms ended the agency’s days of sheltering anonymously under foreign ministry tutelage when JICA was ordered to become an “Independent Administrative Institution”. Dentsu Public Relations successfully remodeled JICA’s image, transforming the agency from faceless bureaucracy into a visible, accountable and accessible organization recognized by nearly half the Japanese population.
plans regarding public corporations would be agreed to by the ministries in charge of them. As such, each restructuring plan has met the arguments of ministry officials about whether each public entity is necessary, and if changes needed what form those might take. In doing so, the bureaucrats have also enlisted support from the LDP zoku members in resisting his administrative reform proposals. In a similar vein, the PM's plan for privatizing postal services and savings ignited severe objections from the bureaucrats of the Ministry of Public Management, Home Affairs, and Posts and Telecommunications, which waged a war against Koizumi in order to prevent or at least delay the actualization of the plan. The types of resistance took a variety of forms from downright critiques to masterly administrative actions. For instance, in setting the standards for private businesses that wanted to participate in the bids for mail services, the ministry imposed such highly restrictive terms and conditions which made it almost impossible for them to take over the business. Such ministerial damage practically prevented the swift execution of his postal privatization plan by delaying the selection process of the participating businesses for the job (Mulgan, 2002). In terms of the postal privatization issue, PM also had to face the same relentless battle within his party. The Japanese postal savings and insurance are administered by the Postal Savings Bureau and the Postal Life Insurance Bureau, respectively, in the Ministry of Post and Telecommunications (MPT)\textsuperscript{17}, in which millions of regular Japanese, who trusted the government with their hard earned money. The public savings deposited the postal system have been an important source for early industrial development in Japan. The MOF, through the system of the Fiscal Investment and Loan Program \textsuperscript{18}(FILP, Zaisei Toyushi Seido), receives and distributes funds. Among the total sources of FILP funds, the postal savings system provides about 25 percent, which are then transferred to 10 government banks that make subsidized loans to targeted sectors of the economy as well as a variety of government corporations and enterprises.

\textsuperscript{17} The Ministry of Posts and Telecommunications was one of the ministries in the Japanese government. In 2001, the ministry was merged with other ministries to form the Ministry of Internal Affairs and Communications.

\textsuperscript{18} At the time of Japan's economic miracle the Fiscal Investment and Loan Plan (FILP), a massive pooling of individual and national savings immensely contributed as a second budget. At the time FILP controlled four times the savings of the world's largest commercial bank. With this financial power, FILP was able to maintain an abnormally high number of Japanese construction firms (more than twice the number of construction firms of any other nation with a similar GDP).
The existence of the postal savings system has been a big pain to the private-sector banks in Japan since they cannot match the super cut-rate programs of the government which severely impact profit margins. The post office also has an advantage over banks and insurance companies as they can cross-sell three main products of postal services, savings and insurance, and go beyond the territories of the Financial Services Agency, enjoying greater freedom from inspectors and regulators. Another problem of the postal savings system is related to the FILP, which is operated through governmental financial institutions. Ironically, it was a positive, indispensable factor during the initial developmental period of Japan while it worked as a “money bridge” that directed necessary financial resources to specific industrial sectors.

However, as the Japanese economy matured and with opening up of financial markets, private companies became increasingly dependent on the FILP for money. As a consequence, the FILP, which needed to circulate large sums of money, made a hasty and poor decision and directed its investment strategy toward less efficient uses, and with the bubble burst, it was saddled with mountains of bad loans, which would eventually have to be paid out with money of taxpayers (Mishima, 1998). Acknowledging the problem, the reform of the postal service was one of the top priorities of the Koizumi administration’s reform agenda. His first move was to form the Administrative Reform Council (ARC), composed of pro-reformers, to look at post-office reform and propose a blueprint. The ARC Interim Report proposed that the Ministry of Posts and Telecommunications (MPT), which is in charge of the postal system, be abolished with the original responsibilities transferred to new or existing agencies and that the financial business part of the postal service be privatized immediately for the insurance business in the near future for the banking business (Mishima 1998).
4.7.3 Koizumi-Business Relation Strategies

With the failure of various prescriptions to revive the deteriorated economy, the Koizumi government in 2002 announced its "Comprehensive Measures to Accelerate Reform,"\(^{19}\) and the "Program for Financial Revival,"\(^{20}\) which include various measures for the acceleration of the disposal of non-performing loans and the establishment of the Institution for Industrial Revival\(^{21}\). Despite his reform initiatives, however, the results were 44% drop in stock prices and slowly moving economic reform measures. A consensus was reached that these problems were compounded by the failure of Koizumi to form a strong pro-reform foothold that backs his administration to accomplish its reform program. As a matter of fact, big business has been actively lobbying for structural reform, which includes deregulation, the injection of public funds for nonperforming problems of banking sector, corporate restructuring and tax reform. For the big businesses, steady implementation of the deregulation process helps them accumulate immense wealth and international presence over the years. As they became financially independent, however tight relations with the LDP and the bureaucracy loosened. Even so, overcoming the presence of divergent sectoral interests and their connections to the government ministers is still a daunting task. And for the LDP, changed status of the big businesses left smaller opportunities for the LDP to maneuver.

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19 On October 30, 2002, the government announced its "Comprehensive Measures to Accelerate Reform," an integrated program for countering deflation. This program identifies several important policy directions concerning the problem of non-performing loans. First, it prescribes a more rigorous assessment of bank assets. Second, it calls for the infusion of public funds when necessary. Third, it seeks higher standards of corporate governance for banks. Finally, the program establishes a goal for reducing the ratio of non-performing loans of major banks to approximately one-half of current levels by fiscal 2004.

20 Minister Heizo Takenaka unveiled the Program for Financial Revival, a comprehensive counter-deflationary package that also includes a set of schemes to accelerate the disposal of NPLs. The program set a clear direction, urging the government to press forward with the disposal of NPLs and the restoration of companies and industries in a cohesive manner. To accelerate NPL disposals, the program calls for compulsory adoption of the discount cash flow method by banks when calculating necessary reserves for loan losses.

21 Among the announced countermeasures to deflation, the government called for the creation of the Industrial Revitalization Corporation. Working alongside the Resolution and Collection Corporation which focuses on the collection of claims, the Industrial Revitalization Corporation would function to receive and to revive enterprises deemed to be viable.
them through policy measures. Unlike the big businesses, the banking and small medium businesses strongly opposed to the reforms measures Koizumi proposed.

For the banking sector, as it became inefficient through years of tight relations with the ruling LDP, it ranked as one of the most internationally non-competitive sectors in Japan. Despite the initial efforts of the Japanese government, the reform results were limited and the government kept conceding to the opposition from the banks. In addition, small-medium firms, which have existed within the context of the vertical *keiretsu*\(^{22}\) system and supplied labor-intensive parts to larger firms in the vertical hierarchy of the *keiretsu* groups (Okimoto, 1990), also opposed economic reform measures of the Koizumi government. Because structural reform would dismantle the *keiretsu* system and enable large manufacturers to easily substitute imported parts for those currently purchased from small-medium domestic manufacturers, this segment of the manufacturing sector would contract.

4.7.4 Koizumi’s Reform Efforts since 2003

Regardless of disappointing reform results, Koizumi made a comeback after winning a general election in September 2003 and received a second chance to continue his promises for change with his reform plans seeming to be gradually realizing (*Asahi Shinbun*, Sept. 20, 2003). In terms of his relations with the LDP members, he had steadily strengthened leadership in certain policy areas since 2003 by consistently criticizing flaws in his party and disabling the system of factions which has long been the actual power behind the PM (*The Economist*, September 17th, 2005). Mr. Koizumi also broadened his support base within the LDP through recruiting new LDP members, many of them from urban constituents with pro-reform attitudes, and appointed cabinet members who he regarded was well qualified and loyal to him, ignoring the factions

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\(^{22}\) The *Keiretsu* system is the framework of relationships in postwar Japan’s big banks and big firms. Related companies organized around a big bank (like Mitsui, Mitsubishi, and Sumitomo) which own a lot of equity in one another and in the bank and do much business with one another. The *keiretsu* system has the virtue of maintaining long term business relationships and stability in suppliers and customers. The *keiretsu* system has the disadvantage of reacting slowly to outside events since the players are partly protected from the external market.
when appointing his cabinet. In addition, changes were being made to *policy tribes* the policymaking machinery of the party, and a new super ordinate committee was entrusted with vital roles of advancing reform agenda of Koizumi by establishing policies, reinforcing cooperation between the executive and the party, and controlling anti-reform forces within the LDP and the government (Mulgan, 2005: 274). He also strengthened the role of the party’s secretary-general (who is appointed by him) within the party. Moreover, he made sure that advancement within the party depends on loyalty to the leadership more than to the faction.

In the executive field, he enlarged and strengthened the PM’s Office, Cabinet Office (at the end of 2003) with its scope tripling from 200 staff number to 649. Executive advisory councils within the Cabinet Office were crucial to Koizumi’s reform march as it generated reform proposals and manifestos. This renewed policy-making changed the tradition party-government ties and as a result, policy intervention by the LDP faction members were considerably limited and top-down decision-making practices started having influence on reform results (Mulgan, 2005). Koizumi also got a huge amount of support from big businesses for his reform campaign as the powerful *keidanren* explicitly backed him (Callick, 2005). Last but not least, behind this also lies faithful support from the public by rewarding Koizumi with electoral victories.

Big banks successfully reduced bad loans in line with the plan of Heizo Takenaka and to some extent were on track. It is easy to say what is good for Japanese banks are good for Japan Inc. With capital directed more to companies that can use it best, return on equity

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23 Japanese association of business organizations that was established in 1946 for the purpose of mediating differences between member industries and advising the government on economic policy and related matters. It is considered one of the most powerful organizations in Japan. Created as part of a postwar effort to reorganize the business sector of Japanese society, Keidanren initially had little influence. It subsumed the functions of the Japanese Industrial Council in 1952, a measure that both expanded its ranks and increased its influence. For most of the post-war period, the Keidanren has been the voice of big business in Japan and is generally considered the most conservative of the country’s three major economic organizations. The other two organizations are the Japan Chambers of Commerce and Industry and the Japan Committee for Economic Development. According to the organization’s official website, the mission of the Keidanren is to: accelerate growth of Japan’s and world economy and to strengthen the corporations to create additional value to transform Japanese economy into one that is sustainable and driven by the private sector, by encouraging the idea of individuals and local communities.
for Japan Inc. jumped and the businesses, realizing the inevitability of corporate restructuring for their part, also initiated terrible process of labor cuts and reorganization. With these efforts, corporate balance sheets strengthened and in August, following a round of record corporate earnings reports, the International Monetary Fund revised the 2005 growth projection for Japanese gross domestic product from 0.9% to 1.8%. The same month, bank lending rose 0.2%, the first increase since October, 1998. Tokyo land prices, which fell for 13 consecutive years and form the collateral for many bank loans, rose. The Tokyo stock market reached its highest level since 2001.

Figure 15: Bad Loans as a Percent of Total Loans in Japan

Source: Financial Services Agency

"Japan was back on the growth track (Business Week 26, 2005: 45-6). September 2005 marked an unprecedented, memorable turning point for Koizumi as he dissolved the lower house of Parliament, calling a snap general election due to the failure of passing post privatization bill."
The postal privatization issue was one of the top priorities of the Koizumi administration's reform agenda. Yet continuing political bickering and disputes among different interest groups kept holding his reform efforts. Finally fed up with the LDP members who voted against his plan for reforming the national postal system, he made good on his promise to vanquish the "rebels" in his term and recruited a new breed of "assassins" to fill up their empty yet unnecessary seats (Newsweek, Sept. 15, 2005). He recruited a team of high-profile candidates dubbed "assassins" by Japan's media-to challenge the LDP rebels in home districts and campaign for postal privatization. The backgrounds of these assassins ranged as colorful as Mr. Koizumi himself and they worked a miracle by sending 20 of the rebels out of the office, thus rewarding him with 296 of parliament's 480 seats, "its biggest haul since 1986" (The Economist, September 17th, 2005). This electoral success surely helped him to pass a bill authorizing the privatization of Japan Post on October 14, 2005 (Mainichi Shimbun, October 15, 2005). Many commentators and economic specialists cautiously predicted that his stronger position within the LDP would help him get through with his policy reform plans and widen and strengthen partisan support would support him to get through necessary reform bills in the Parliament more easily.

In order to establish political leadership, it is necessary to restructure the relationship between politicians and bureaucrats. Japan should, in principle, prohibit not only individual politicians but also parties to contact bureaucrats by disregarding the administration. Furthermore, the support basis for the LDP needs to be reformed. The LDP has long protected the interests of various businesses, and has received political support from those protected businesses. As a result, the LDP could not ignore business interests, and failed to make bold policy decisions due to their vested interests. It is necessary to restructure the special revenue sources for political and business interests.

24 In the 2005 elections, to counterattack the LDP postal "rebels"37 lower house members who voted against the postal bills, Koizumi struck them from lists of LDP candidates and fielded "assassins" to take their place
From the viewpoint of normalizing the relationship between the incumbent and opposition parties it is also important to reform the special interest structure. The system must be changed in which those organizations that are protected by the government are supporting a particular party. What Japan needs is strong government as well as fair elections. Democracy should mean that people delegate their power for a certain period of time, and express their evaluation in the elections. In order to realize fair elections, there is a need to eliminate the political structure based on special interests.

The policy leadership of the prime minister has weakened along with the political power of the ruling parties. Moreover, political debate has been increasingly colored by a backlash against, and antipathy toward, the Koizumi reforms. Although analysis of opinion polls shows that the major reason for the LDP’s defeat was a succession of scandals involving cabinet ministers, as well as the government’s ineffective response to the lost pension records mess, many in the LDP have pointed to the opposition’s gains among the LDP’s traditional supporters farmers and local communities as another key reason for the defeat. They argue that Koizumi’s reforms went too far and exacerbated inequalities in society. They insist that fiscal discipline should be eased so that government expenditures can be increased to help farmers and local governments. The global financial crisis and the prospects of prolonged recession have strengthened the appeal of these arguments in the ruling coalition. As a result, the LDP seems to be going back to the policies of the old days, pleasing a whole range of vested interests.

Undoubtedly, the success of structural reform hinges on how the executive branch handles various, and often opposite, interests among particular groups. In this respect the Japanese reform delay was largely a corollary of the PMs’ incapability to regulate or balance these conflicts. The absence of a strong executive authority was caused by the fragmentation within the ruling conservative Liberal Democratic Party (LDP), uncooperativeness of and internal divisions within the bureaucracy, and conflict of interests among various economic groups. By the time Koizumi took the next premiership, faction and policy tribe members had regained previous power, wielding influence over the policy-making process once more, bureaucratic rigidity also persisted,
and business opposition still existed despite some genuine realization from the corporate side that “it’s time to change”. However, after Koizumi was re-elected for his second term, the public welcomed his presence and even prepared themselves to make sacrifices in accordance with his policy reform proposals. Yet in order to initiate and execute his proposals, he, too, needed the LDP support, parts of which he declared a desire to destroy for the future of Japan.

As a result, his reform efforts started having success. In fact, he has acquired a hopeful scaffold for administrative reforms and for settling the nonperforming loan problem and the economy is now in good shape. In order for these to happen, he strengthened his support base within the LDP, decisively weakened the power of factions and zoku, streamlined and reinforced administrative power base within the government. In addition, businesses, fraught with collusions with party members and the bureaucracy, internal disputes, and inefficiencies, realized the urgency of economic reforms and started cooperating with the government guidelines and restructuring. Most of all, the electoral victory of Koizumi on September 11, 2005 has paved a way for him to strengthen his position and continue his reform agenda. Overall, Japanese structural reform is an ongoing process and needs a multi-dimensional approach for its success.

4.8 Changing Nature of Japanese Politics

In the August 30, 2009 elections, Japanese voters decided they are ready to entrust their government to an untested political party, the Democratic Party of Japan (DPJ). After being in charge for almost half a century, Japan’s Liberal Democratic Party (LDP) faced its first true challenge for power, and lost. But a DPJ victory was years in the making. After dealing a devastating blow to the LDP in the Upper House election in 2007, Japan’s political newcomer set its sights on the prime minister’s office. Opinion polls prior to the August 30 balloting revealed a rising level of support for a DPJ win, and in the cities and
towns throughout Japan, an intense electoral battle was in full swing. Talk of this grand drama of postwar Japanese politics foreshadowed the end of an era, and, the demise of the 1955 system’s grand old system is as significant as the emergence of the new regime (Masaru Kohno, 1997). But what explains this massive shift in Japanese politics?

Electoral victory of the opposition Democratic Party of Japan (DPJ) over the long-ruling Liberal Democratic Party (LDP) holds historical significance, not only for political scientists but also for the people of Japan, and possibly for the country’s Asian neighbors and the United States as well. The LDP can boast of being the most successful political party operating in a democracy since the mid-twentieth century. The party held power nearly continuously from its formation in 1955, a scant three years after the end of the U.S. occupation. In the House of Representatives (the lower but substantially more powerful house in Japan’s bicameral system), the LDP compiled an amazing record: the party did not lose a single election in more than a half century, until August 30, 2009, when the Democracy Party of Japan won a stunning upset victory.

Generations of Japanese have grown up knowing no governing party other than the LDP. The only interruption to the party’s rule was a brief ten-month period in 1993-94, when a small group split from the LDP to seize power as part of a disparate coalition that did little more than pass an electoral reform bill before falling apart (Cox and Rosenbluth, 1995). Much more significant than that episode, this electoral result seems likely to have important implications for the way in which Japan’s democracy works. Nearly 60 percent

25 Before the dissolution of the lower house, National weekly magazines had been citing analystsredicting a big loss for the ruling coalition which held two-thirds of the seats in the House of Representatives. Some (e.g., Shukan Gendai) warned that the LDP could lose as much as half of that. Many based their predictions on the low approval rating of the Prime Minister Taro Aso and the devastating loss that the LDP suffered in the earlier prefectural election in Tokyo. On August 20 and 21, 2009, Asahi Shimbun and Yomiuri Shimbun, leading national newspapers, and Nikkei Shimbun, a financial daily, reported that the DPJ was poised to win over 300 of the 480 contested seats. On August 22, 2009, Mainichi Shimbun went further to predict that the DPJ could win over 320 seats, meaning almost all DPJ candidates would win. Mainichi noted that the DPJ appeared to be doing well in the western part of Japan, a traditional stronghold of the LDP, and that the LDP could lose all of its single-member constituency seats in 15 prefectures, including Hokkaido, Aichi, and Saitama. Also, according to Mainichi, the Japanese Communist Party will probably retain its previous 9 seats, while the Komeito Party and the Social Democratic Party may lose some of their shares. According to a poll conducted on August 22, 2009 by the Yomiuri Shimbun, Japan’s largest newspaper, 40 percent said they would vote for the DPJ, while 24 percent for the LDP.
of LDP incumbents were turned out, and many sitting and former ministers, even a former prime minister, lost their seats. For the DPJ, on the other hand, election night brought only smiles. The party captured an amazing 308 of the 480 seats in the Diet, an all-time record and only seven DPJ district candidates did not find their way into the Diet. The DPJ more than doubled the LDP’s 119 seats. What makes this election result even more surprising is that in the House of Representatives election in 2005, the LDP engineered its greatest triumph ever, earning a stunning two-thirds supermajority. How could the LDP go from riches to rags in such a short span?

Some experts on Japanese politics feel that in 2005, the Japanese public was not voting for the LDP and it was not voting for postal privatization, the issue that was the basis for Koizumi’s calling the election. It was voting for Junichiro Koizumi, not just Koizumi the man although Koizumi’s quirky charisma and hair were certainly part of his appeal but for the type of politics that Koizumi represented. In 2001 the LDP was deeply divided, led by the widely detested Yoshiro Mori. Since returning to power in 1994 (it was out for only a little more than a year), the party had overseen a worsening economic crisis even as the government went deep into debt trying to revive the economy through pump priming. The ramifications of Japan’s aging, shrinking population were coming into view. There was a widespread sense of worsening quality of life and growing inequality in the relationship between various provinces, in income, and in economic opportunity. The LDP appeared incapable of fixing any of these problems, and the creation of the DPJ in 1998 suggested that an alternative might be in the offing (Lee, Moretti and Butler, 2004).

Then Koizumi rode into power in 2001, on the wave of support from the party’s local chapters (Cox and MacCubbin, 2001). He signaled a break from the LDP’s traditional machine politics and sought to strengthen the power of the prime minister at the expense of the party and its factions. He wanted to appeal directly to the public in his campaign against what he called the LDP’s ‘opposition forces.’ In short, he signified change. The public rallied behind the prime minister because he signaled a brand of governance in which the prime minister and the cabinet would be able to establish policy priorities and
follow through on them, without bending to the will of party barons, bureaucrats, or interest groups. It was for this reason that Koizumi's expulsion of LDP members who voted against postal privatization in August 2005 was significant: Koizumi was signaling that it was the prime minister who decided policy, not party notables.

Figure 16: Support for Democratic Institutions and Cabinet, 1976-2001

The reason about 15 percent of voters defected from their parties in the early 1990s was probably dissatisfaction with and distrust of politics. While reporting a low level of political satisfaction, Japanese people actually reported a high level of confidence in institutions typical of a democratic system (i.e., elections, the political parties, and the Diet) up through the 1980s. However, this assurance plunged after 1996. Figure 16 shows no relation between cabinet support and institutional trust from 1972-1996. After 1996,
there does seem to be a relation (cabinet support and institutional trust decline together). In 2000, over half of the electorate still maintained faith in the electoral process, while more than two-thirds distrusted the political parties and the Diet. In 2001, however, even confidence in elections fell sharply, to 32.3 percent. Meanwhile, belief in the viability of other institutions continued to collapse, to the astonishingly low levels of 21.3 percent (parties) and 15.6 percent (the Diet).

Not surprisingly, in a poll taken after the election in 2005 by the Asahi Shimbun, 58 per cent of respondents viewed Koizumi as the reason for the LDP’s victory, compared with only 18 per cent who cited support for the LDP. For much of the last half century, Japan’s voters saw the LDP as a force for stability and growth. Governance was a cooperative project between the LDP and the bureaucrats, an alliance that ensured the technocratic vision of the Japan Inc. model widely credited with Japan’s postwar accomplishments. To its credit, the LDP transformed itself quite neatly to keep pace with a changing Japan. The 1990s “lost decade,” during which the economy stagnated, finally revealed the limitations of a bureaucracy long accustomed to single-party rule. Ministry after ministry was wracked with scandal, in many cases revealing a surprising disregard for citizen interests, and the reputation of Japan’s elite bureaucrats was badly tarnished.

Today, Japanese voters see an increasingly troubled government with deeply embedded special interests impeding social change rather than helping to manage it. This moment of choice was far less dramatic, however, than current headlines suggest. A painstakingly slow and confusing process of political realignment has been on Japan’s agenda for more than a decade. The prescription for this process was articulated in the early 1990s. Electoral reforms, including the introduction of single-member districts, brought the

26 After several scandals involving important LDP officials, public confidence was shaken, and a number of LDP members left the party. The LDP lost for the first time in the 1993 general election to a reformist coalition, composed mainly of former LDP members. Major scandals include HIV-tainted blood scandal (Japan),Itai-itai disease, Lockheed bribery scandals, Minamata disease,Minamata disease compensation agreements of 1959,Niigata Minamata disease,Oura scandal, Recruit scandal,Teijin Incident,Yoshiaki Tsutsumi,Yokkaichi asthma.

27 In 1994 Japan replaced its old electoral system, the single nontransferable vote (SNTV), with a new, mixed member system for the lower house of the Japanese Diet that combines plurality voting in single-
opportunity for building a new opposition party to contend with the powerful LDP (Christensen, 1994). Since then, the process of alignment and realignment produced myriad new political parties and coalitions, but the lingering role of smaller parties prevented a full and sudden shift to a two-party face-off. Only once have Japanese voters chosen the LDP’s opposition to govern Japan, and then it was an umbrella coalition of eight smaller parties that only lasted for 263 days. Some rather creative alliances facilitated the LDP’s hold on power (Shiratori, 1995). In the mid-1990s, it joined with its longtime opponent, the Japan Socialist Party, and in 1999, it made an even more significant alliance with the New Komeito, a party backed by a populist Buddhist organization, the Sokka Gakkai. Bashing the bureaucrats and claiming a direct role in representing Japan’s citizens is the new mantra in Japanese politics.

The LDP itself captured the Japanese public’s need for something different when Junichiro Koizumi emerged as party leader in 2001. Koizumi articulated a reform agenda that included cleaning up Japan’s banking system and restructuring the economy to make Japan more globally competitive. Most surprisingly, Koizumi took on his own party, arguing that the first step in transforming Japan was to reform the LDP itself. The Japanese voters rewarded Koizumi’s effort in 2005 with a resounding victory, and the LDP and New Komeito together had a two-thirds majority in Japan’s Lower House. But the LDP has long since abandoned Koizumi’s strategy, and today it is the DPJ that energizes the debate over how to transform Japan.

member districts (for 300 seats) with regional, closed-list proportional representation (PR) for the remaining 200 seats. The previous SNTV system allowed voters one vote in elections for three to five representatives per constituency (except for a handful of smaller and larger ones), with the top vote-winning candidates taking those seats. While this form of limited voting is not considered a true PR system, SNTV in practice exhibited a degree of proportionality (comparing a party’s allocation of seats won to its percentage of national popular vote) equivalent to some party list proportional systems with small districts. Because the smaller parties were consistently able to win some seats under SNTV, they resisted attempts by the Liberal Democratic Party (LDP) to reform the system in a more majoritarian fashion, the direction always proposed by governments that were headed by the LDP from 1955 to 1993. LDP candidates campaigned against each other in most constituencies. Since they could not compete on a policy basis, they were forced to campaign on a more personal level, which critics contend led to corruption, parochial politics and incentives for high campaign spending. The other major complaint was the malapportionment of constituencies. Rural areas had more representation in the Diet than their population would justify sometimes at a 4:1 margin when compared to urban areas. This was seen as unfairly helping the LDP. Court decisions only brought about minor changes in the worst cases.
4.9 Globalization and Japanese Politics

One of the factors attributing to this political development lies the Japanese people's changing perception about their position in the global economy. Observers across the world repeatedly warned that Japan, mired in stagnation for the last two decades, would drift into a permanent decline if it failed to undertake fundamental economic reform. Yet, mainstream opinions did not heed the advice. It was beyond their imagination that the LDP's economic strategy, which produced prosperity for many years, could be defeated. Furthermore, they had sufficient financial accumulation to endure stagnation for a while. But the current global economic crisis is finally awakening Japan. A great number of citizens are now persuaded that their economy needs fundamental reform to get out of its slump.

A national consensus supporting the economic strategy the LDP has consistently employed has enabled the party to continue to win elections. The strategy consisted of two elements. The first was to foster the manufacturing industry by "industrial policy" (like government guidance and incentives) with an export-dominated focus. The second leg of the strategy was to distribute wealth generated by the manufacturing industry evenly across the country. In reality, this meant transferring large sums of money from urban areas to rural areas. The purpose of this approach was to augment domestic consumption and ensure political stability by preventing the emergence of economic losers.

In the early days, this strategy of leveraging rising global trade delivered admirable results. It quickly turned the nation into the second-largest economy in the world. By the early 1990s, however, the global expansion of trade and manufacturing made the strategy unsustainable. Japan's export efforts caused huge trade imbalances and incurred fierce oppositions from the US and Europe. The domestic wage growth and appreciation of the yen currency forced Japanese manufacturers to move factories overseas. But the electoral importance of rural voters did not change, preventing the LDP from abandoning its
commitment to financial support of rural areas. Consequently, the LDP resorted to deficit financing, making Japan experience the worst fiscal deterioration in the industrial world.

It is true that some LDP leaders noticed the crisis and enacted reform programmes to overcome it, but these programmes did not seek to change the strategy's basic framework and bore only limited fruit. The most important example is the programme implemented in Koizumi. But his plan simply readjusted the balance between the two elements of the strategy: giving the manufacturing industry renewed boost while downsizing financial aid to rural areas. Initially, Koizumi's reform looked successful. For 2002-2006, the annual GDP growth rate was over 2 per cent, and many analysts praised the reform. Soon, however, its negative aspects became visible - it swelled economic inequality and undermined Japan's traditional egalitarianism. For example, reduction of financial transfers increased unemployment rural areas. Shrinking of welfare expenditure created numerous holes in social safety nets. Deregulation of labour rules proliferated unstable low-wage jobs.

Eventually, the start of the global economic crisis gave a fatal blow to Koizumi's reform. Though its financial institutions had only limited exposure to risky financial products, Japan is one of the nation's worst hit by the crisis. According to IMF it was not Koizumi's reform, but the US consumption bubble that was the cause of Japan's recent recovery. It has been made clear that despite his thrilling rhetoric, Koizumi operated within the parameters of the LDP's traditional strategy and never brought about a renaissance. With the failure of Koizumi's reform, a great number of Japanese have become convinced of the emptiness of the LDP's economic strategy.

28 In the fall of 2002, Koizumi appointed Keio University economist and frequent television commentator Heizō Takenaka as Minister of State for Financial Services and head of the Financial Services Agency (FSA) to fix the country's banking crisis. Bad debts of banks were dramatically cut with the NPL ratio of major banks approaching half the level of 2001. The Japanese economy has been through a slow but steady recovery, and the stock market has dramatically rebounded. The GDP growth for 2004 was one of the highest among G7 nations, according to the IMF and OECD. Takenaka was appointed as a Postal Reform Minister in 2004 for the privatization of Japan Post, operator of the country's Postal Savings system.
This changed perception lies behind the head-to-head battle between the DPJ and LDP. Yet, the change of ruling parties will need to be only the first of many steps toward Japan’s revival. Most basically, the Japanese will need to agree on a new economic strategy. According to few analysts, at this stage, a DPJ victory means rejection of the LDP, not support for DPJ policy, which is highly ambiguous because it is the amalgamation of diverse platforms. According to some observers, once at the helm, the DPJ will have to foster a society-wide discussion to forge a new national consensus on economic strategy. This discussion will have to answer two key questions.

First, where can Japan find new growth frontiers? Now that export-led growth is a poor option, Japan will have to turn to domestic markets as its primary source of growth. Second, how can Japan cope with the ageing of its population? This question will include reform on pension, employment, and immigration. How can the possible fall of the LDP’s reign affect the global economy? It is fair to say that in the short term, little impact will be felt at the global level.

Now it has become apparent that lacking concrete ideas about Japan’s renewal and know-how for controlling the bureaucracy, the party will have no choice but to go along with an economic policy similar to the LDP’s for a while. Unfortunately, this also means that Japan will continue to play a secondary role in the global efforts to tackle the current crisis, for which a more supportive role of US is necessary.

The lost decade also signifies an era of short-lived political leadership. Why have Japanese administrations been unable to persevere during the last decade? There is reason to presume that the frequent transfers of power are a result of factors inherent in the fabric of this country’s contemporary politics, although an exception must be made for the Cabinet of former Prime Minister Keizo Obuchi, which did not last long because of his fatal illness.

First and foremost, the 1990s were a time of great turbulation for all prime ministers. During this period, the nation was confronted with many difficult structural reform tasks,
including deregulation and administrative and fiscal reforms. This reform effort represented an attempt to drastically change various systems and practices established since the end of the war. All this was exacerbated by the worst recession of the postwar period.

Despite the hardships confronted by the government, the public became exceedingly frustrated with the successive prime ministers. The frustration felt by members of the public reflected their concerns about such economic woes as a rise in the jobless rate due to the prolonged recession and cuts in the corporate workforce. Voters became impatient and demanded that the government find quick solutions to these problems.

In addition, the impatient sentiment entertained by voters may have arisen, in part, from a perception gap between ordinary members of the public and political leaders in terms of how fast the reforms should be carried out. The public expects swift reforms to take place in the age of globalization. However, politicians do not seem to share the same sentiment.

Many urban dwellers have been quick to recognize the force of globalization when they find themselves doing work that relates to the world economy in one way or another.29 This is in stark contrast to politicians who devote a good portion of their time to dealing with matters of domestic interest in a conventional manner.

Observers feel, the frustrated public has to wonder why Japan was left behind as a partner to the United States in pursuing economic growth at a time when that country’s economy was enjoying an unprecedented boom. This honest frustration causes the public to expect that circumstances will take a favorable turn if their prime minister is replaced by a new leader. It is tempting for political leaders to react to this by writing superficial prescriptions for reforms.

The kind of action taken by politicians is a far cry from the drastic solutions called for by the problems facing their nation. This can be best symbolized by the series of myopic

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29 Globalization would positively help Japan in a number of ways most important being boosting its exports and compensation for the labour shortage due to its aging population by encouraging immigration.
pump-priming measures taken by the government in recent years, using massive amounts of taxpayers’ money. Instead of implementing measures to aid a new generation of globally conscious innovators and electronic commerce entrepreneurs, for example, the government has spent massive funds on conventional public works projects, although such projects are not effective in producing economically multiplying effects. This means that the nation’s conventional systems and practices have been kept intact, slowing down the struggle for structural reforms. In other words, the government has not been able to break the futile cycle of a continued recession combined with a decline in the approval ratings of the various administrations.

In Koizumi’s reform agenda, the two pillars of a reform of Japan’s political economy and a reform of this own parties were closely interlinked. When Koizumi promised to destroy the LDP if it resisted reform, what he meant was not the destruction of the party per se. Rather it meant the destruction of the old-style LDP approach of nursing patron relationships that had been perfected by former Prime Minister Tanaka and his factional lineage. In some ways, Koizumi revived a fight that his political mentor, former Prime Minister Fukuda Takeo (1976–1978), had largely failed to win (Kobayashi 2005). The political rationale of what were on the surface economic reforms, privatizing public corporations and postal services, reducing wasteful public spending on infrastructure projects, devolving more power and independent tax sources to the regional level, consisted of severing the traditional clientelistic links between Japan’s dominant party and various interest groups. What this all boiled down to was a largely, if perhaps only temporarily, successful attempt at reinventing the LDP. Koizumi instinctively understood that after so many momentous changes in Japan and beyond in the 1990s, the collapse of the bubble economy, the rise of information technology, the increased momentum of globalization, and the unraveling of social and other ties in Japan-the LDP could not go on as if nothing had happened.

Some observers are of the view that, the Japanese government has been the source of problems more than a provider of solutions. Misdiagnosis of the bubble phenomenon on the part of Japanese financial authorities ushered in the lost decade of the 1990s. In
addition, politicians and bureaucrats have been involved in various corruption scandals from the bubble period onward. Japanese politicians, those of the leading Liberal Democratic Party in particular, stuck to the old ways of doing business (or politics) where government expenditure and favor-giving serve as the continuing source of campaign funds to buy electoral votes. The Keynesian prescription for a stagnant economy, i.e., an increase in money supply and government expenditure, turned out to be an utter failure (Black, 2004).

The condition of gridlock appears in other aspects such as politics, society, and ideology. The political turmoil that plagued the Liberal Democratic Party in the 1990s and in 2009 was a manifestation of the limit of the so-called 1995 system where the LDP held stable leadership so as to foster corporate-centered economic development with minor distribution concession to the workers. The neoliberal reform pushed by Hashimoto and Koizumi were diametrically opposed to the institutional foundation of the LDP where allocation of public spending and administrative intervention secures its rule in the Diet. Japanese politics is in gridlock between traditionalism and neoliberalism, both of which are dysfunctional. Japanese society appears to be on the path toward a dim future plagued by unemployment, suicide, crime, population decline, and the lack of hope. An ideology of competition that justifies inequality by blaming the losers of the competition game (which is rigged from the beginning) is ruling the Japanese schools, corporations, and society at large (Kudomi, 1993). The popularity of Koizumi may be an indication that the Japanese voters accept the neoliberal ideology of individualistic competition.

The Japanese economy continues to suffer from vast unrealized potential. But the crux of the problem doesn’t lie within the economy itself, but rather in Japan’s failure to tackle the political reforms necessary to unleash the economy (Park, Cheol Hee. 2001). This is the lesson of the current crisis. Although the potential of the Japanese economy remains impressive, what the current predicament underscores is that insufficient progress in tackling necessary structural reforms in the past is now keeping the Japanese economy from performing as strongly as it deserves to. In this sense, Japan’s problem is not
economic, but rather political a failure of the political system to face reality and tackle needed reforms.

The lesson is that strong political leadership committed to reform will give the economy the best chance to grow. Expectations of reduced tax burdens in the future and more business opportunities will encourage companies and consumers to invest and consume more. This, in turn, will result in faster actual growth and create expectations of even higher growth. Nevertheless, while Koizumi’s policies contributed to the Japanese economy’s comeback, reform under Koizumi was neither perfect nor complete. The fiscal situation improved but is still far from balanced. The government succeeded in slowing the accumulation of debt, but is only halfway toward the stage where the stockpile of outstanding debt can be reduced. Furthermore, for the economy to grow faster, more competition and the entry of new businesses should be encouraged. Government regulations and private practices that inhibit such activities should be eliminated by regulatory reform, competition policy and privatization, while safeguarding the public interest. These are internationally accepted, standardized micro policy prescriptions, but their implementation has been generally weak and half-hearted in Japan, even under Koizumi.

4.10 Implications of the 2009 elections

The most important change that the DPJ is quite likely to carry out is to challenge the preeminence of the elite bureaucracy. The centerpiece of the party’s campaign was to stress putting policy-making power and responsibility squarely in the hands of politicians. If it follows through, we can expect more overt diminution of bureaucratic influence on policy, a trend that has been going on under the surface for some time. Of course, bureaucrats are aware of what the DPJ has been saying. It remains to be seen whether they will quietly go along or whether they will find ways to torpedo the DPJ’s policies. Perhaps more significantly, it remains to be seen whether the gains from a politician-controlled process will outweigh the demoralization and sidelining of the elite national
bureaucracy, particularly as Japan's politicians lack resources available elsewhere, such as skilled policy staff and ready access to powerful think tanks.

Second, the DPJ does not have the baggage of the LDP's extensive PARC\textsuperscript{30} policy-making apparatus, its leaders have been a key in gaining policy consensus. There is the real possibility that the DPJ will be a much more top-down policymaking party. On the other hand, DPJ policies have not yet had to be internally consistent, and the mechanisms by which leaders will be able to gain a policy consensus within the party is unclear. The DPJ made a point of having all members sign its manifesto, to be sure. But agreeing to an often vague statement of irreconcilable principles is dwarfed by the challenges of passing a budget in the current economic climate, and choosing among favored ideas and campaign promises.

Third, on economic policy, some members of the DPJ may be even more economically liberal than the LDP, and indeed, they may resemble Koizumi more in this regard than what the LDP did before and after him. The DPJ is not composed of market fundamentalists, however. It differs from them, and from Koizumi, in wanting to stimulate consumer demand. Many of its policies, such as subsidies for families with children, cutting the gasoline tax, and freeing toll roads, go in this direction. This policy

\textsuperscript{30} The LDP's Policy Affairs Research Council (Seimuchosakai, or PARC) was a training ground for aspiring policy tribalists. During the heyday of single-party hegemony, PARC was the "stage," the "shadow cabinet" or "second government," for policy drama (Inoguchi and Iwai 1987, 20 and 27–28). In most policy domains, PARC played a greater policymaking role than did the Diet's committees and subcommittees. Beginning in fiscal year 1960, government ministries submitted their budget proposals to PARC before reporting to the Ministry of Finance (McCubbins and Noble 1993, 15). From their strategic vantage point on the council, the LDP's policy tribalists could affect policy and budget proposals at the earliest stages. Before a bill was submitted for deliberation in the Diet, a complex bargaining process from within PARC had shaped its content As with other components of the LDP's organization, PARC evolved from predecessor entities (Fukui 1970, 30). PARC's prototype emerged around 1918 as a sort of "shadow cabinet" within the Constitutional Government Party (Kenseito). Originally, it granted the party influence over the bureaucratically dominated policy process. Although PARC performed essential functions for the LDP as a whole, it served primarily to help members pursue their goals. Legislators pursuing ideological goals could find like-minded colleagues in, for instance, PARC's deliberative councils for education and defense policy. Yet, for the majority of "foot soldiers" in the LDP's parliamentary contingent, PARC was a convenient vehicle for achieving reelection. Certain PARC divisions (bukai ), investigation committees (chosakai ), and special committees (tokubetsu iinkai ) attracted more members than others. Generally, an LDP legislator can belong to a maximum of three divisions (and an unlimited number of investigation and special committees). Divisions with consistently sparse membership
seldom finds coherent expression as a philosophy, however, and the DPJ will also face enormous budgetary pressures.

Fourth, on foreign policy, although there are nationalist and very conservative members in the DPJ, the party is likely to deemphasize neo-nationalist issues, such as having its leaders visit the controversial Yasukuni Shrine. We can expect better relations for Japan with its East Asian neighbors. The DPJ’s call for a more equal relationship with its military ally, the United States, has caused some nervous flutters in Washington. It is unknown whether these will amount to anything or whether they will be sidelined as the DPJ focuses on its domestic agenda, although excitement surrounding the run-up to the fiftieth anniversary of the U.S.-Japan Security Treaty signing could force the issue.

This brings us to the most significant consequence of the 2009 election: alternation of power. More than any policies that the DPJ may or may not implement, the fact that the opposition became the government matters. The shift in power brings a concomitant and irreversible shift in party-bureaucrat and party-interest group relations; the game is new. Voters, too, awoke on August 31 to their own power to make and break governments. Do not expect another “half an eternity” of DPJ rule. The Japanese electorate will surely kick the DPJ out if it disappoints. More importantly, the forces that the DPJ rode to victory, the demolished rural base, liberated support groups, floating voters, magnified electoral swings, and more influential media preclude any but the most deluded DPJ partisans from dreaming of a half century in power.

What about the LDP? Will it break up, or fade into extinction? Those are certainly real possibilities, but it is more likely that the LDP search for a path back to power. Electoral defeat may provide an unprecedented stimulus for internal party reorganization. It would not be surprising to see a transformed and reinvigorated LDP come out swinging hard in the next election. Now that the DPJ has won the victory it is time to see if the policies and actions put forth are more of the same or if the change promised will be delivered, and soon. While the DPJ has won the election, the real work lies ahead. Now is the time for Japan to rally around PM Hatoyama and support efforts that he says will benefit the
everyday person, and call him to task for lack of action as well. According to observers, it
must be understood that the DPJ needs to be given time to implement policies and laws
that will improve lives in Japan.