

Caught Between Two Worlds: Political Change in Japan By Sota Kato

Both reformers and conservatives seem disappointed by the profound changes altering Japan's political and economic landscape. What both overlook, argues Japanese political scientist Sota Kato, is that the fruits of change require time.

Both camps have ignored the need to rebuild coordination among political and economic players.

WHEN BARACK OBAMA was elected President of the United States, some observers of Japanese politics lamented that Japan seems impervious to change. In their reformist view, Japan has changed “too little, too slowly.” Japanese conservatives, on the other hand, have relentlessly denounced the changes that took place during former Prime Minister Junichiro Koizumi’s administration as the major cause of various political and social problems facing Japan.

Reformists are correct in saying that the changes initiated by the Japanese government have often been sluggish and insufficient. Nonetheless, after the 1990s, Japan’s political and economic system did, indeed, change significantly.

In the economic sphere, various measures to deregulate the economy were adopted. In that process, major elements of the so-called “Japanese System” — such as the main bank system, lifetime employment and the practice of cross-shareholdings among companies — were either partially dismantled or significantly weakened. In the political sphere, comprehensive electoral reform was carried out under former Prime Minister Morihiro Hosokawa’s administration. Electoral reform on such a scale, according to political scientist Arend Lijphart, has been rare among democratic nations in the post-World War II era.

The once vaunted Japanese bureaucracy also became a major target of public criticism, and as a consequence various ministries were reshuffled and the mighty Ministry of Finance was broken up.

In this essay, I argue that Japan’s current political disorder was caused not only by the unwillingness of some political leaders to change but

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also by the changes themselves. Various institutional changes after the 1990s invited what I call “coordination failures” among political players that eventually hindered the players from pursuing subsequent changes.

Nonetheless, my aim is neither to criticize the institutional changes that took place in the 1990s nor to express fond nostalgia for the so-called Japanese System. Instead, I hope to illustrate that the Japanese political system is still in a period of transition and that Japan’s current political and economic mess is, at least partly, a byproduct of that transition. A critical part of such a transition is the search for a new set of institutions that can facilitate coordination among key players. This is a process that takes more time than either reformists or conservatives expect, as the experience of Japan and other transition economies in the 1990s shows.

JAPANESE POLITICS UNDER THE ‘1955 SYSTEM’

In order to discuss the political and economic changes that Japan is undergoing, it is important to understand what came before. When I referred earlier to the Japanese System, I meant the political and economic order that prevailed from 1955 to roughly 1993. In the political sphere alone, I prefer the term, the “1955 System.” Under it, the Liberal Democratic Party (LDP) held a firm majority of seats in the Diet for nearly four decades.

A group of political scientists, who categorized Japan as belonging to the world’s “coordinated market economies,” noted that a variety of coor-

dination mechanisms were incorporated into the Japanese System. Various formal and informal networks and institutions connected key political and economic players, based mostly on long-term and informal relationships. The players developed mutual trust and thus coordination was achieved with relatively low transaction costs.

Many of these relationships were vertical, with the famous Japanese system of *keiretsu*, or inter-company alignments, being a notable example. It was for this reason that Japanese anthropologist Chie Nakane once described Japan as a “vertical society.” Nevertheless, horizontal networks supplemented vertical ones and also enabled horizontal coordination.

The 1955 System, meanwhile, consisted of similar networks and institutions among political actors. In terms of intra-party coordination, LDP factions (*habatsu*) played a key role. The electoral system of the House of Representatives required the LDP to win multiple seats within a single district in order to hold the majority. Different LDP factions were the basis of intra-party competition within the same district. They also allocated political funds and governmental positions to their members.

Factions, on the one hand, competed fiercely for key positions in government and the LDP; while, on the other hand, they served as a coordination mechanism for the LDP. When LDP leaders needed to achieve consensus on key political issues, the obvious first step was to consult with faction leaders. If the leaders agreed to cooper-

ate, the rest was relatively easy. Powerful faction leaders were usually successful in persuading backbenchers to go along. Through such a process, LDP members were able to reach consensus and avoid revolts of backbenchers.

*Inter-party coordination mechanisms also developed under the 1955 System. Despite media coverage that highlighted fierce differences between the ruling party and the opposition parties, most legislative bills during the era were supported by all major parties except the Communists. The Diet Affairs Committee (*kokkai taisaku iinnkai*) was the key institution for the coordination of inter-party politics. The members of the committee not only scheduled Diet sessions but also developed the electoral and financial relations between the ruling and the opposition parties. Such inter-party coordination was called *kokutai seiji*, or “Diet Affairs Committee politics,” and was one of the key components of the 1955 System.*

As for politico-bureaucratic-business relations, so-called *zoku* (interest family) politicians played a central role in the Japanese version of an “iron triangle.” Each group of *zoku* politicians was active within the jurisdiction of a particular ministry. For instance, the so-called *norin zoku*, or agriculture and forestry *zoku*, — one of the three most powerful *zoku* — was active within the authority of the Ministry of Agriculture, Forestry and Fisheries.

Zoku politicians interacted daily with bureaucrats and built close and long-term relationships with them. By maintaining a delicate power balance among bureaucrats, *zoku* politicians acted as coordinators in various political-economic transactions. Bureaucrats also played a key role as coordinators within the “iron triangle.”

COLLAPSE OF THE 1955 SYSTEM

The various formal and informal networks and institutions of the 1955 System grew over a long period of time and facilitated coordination with low transaction costs, especially for insiders.

The system, however, had its shortcomings. Since it relied heavily on closed and informal coordination, under-the-table negotiations were inevitable and invited endless political and bureaucratic

corruption. When the bubble economy collapsed in the early 1990s, public anger erupted at this corruption. The public demanded more open and formal relations between political actors. This is analogous to what happened to Asian economies after the Asian financial crisis of 1997-1998 as once-praised Asian economies were suddenly looked down upon as bastions of “crony capitalism.”

Reliance on vertical coordination also became outdated. During the period when the Japanese economy was enjoying rapid economic growth, vertical coordination worked well to distribute the fruits of growth. That system, however, became much less effective in the era of low growth beginning in the 1990s, when the government was forced to make hard decisions about the allocation of resources. Horizontal coordination is clearly more effective in making such adjustments palatable.

After the bubble burst, Japan initiated massive institutional changes. Although not as drastic or as speedy as reformists anticipated, they were enough to change key parts of the Japanese System. Reformers in the government basically tried to make Japan more like the United States. They sought a more transparent and open system.

The 1955 System formally ended when Prime Minister Morihiro Hosokawa — the first non-LDP leader since 1955 — took office in 1993. The comprehensive electoral reforms he implemented changed the face of Japanese politics, and the effects of those changes are still being felt.

COORDINATION FAILURES IN JAPANESE POLITICS TODAY

It is easy to find evidence that Japan’s political system today is malfunctioning. Two recent prime ministers, Shinzo Abe and Yasuo Fukuda, resigned after only a year in office. The rise of a divided Diet (*nejire kokkai*) — where the ruling parties control the House of Representatives, while opposition parties control the House of Councilors — has further encouraged the Japanese government to postpone key decisions. Attacks on the bureaucracy by the media and politicians, meanwhile, are unrelenting. As a result, young and competent bureaucrats are

fleeing from government service. Japan's total outstanding public debt as a ratio of gross domestic product has reached 170 percent, by far the highest among the Group of Seven (G7) industrial countries and nearly three times higher than that of the US.

Reformists are only partially correct when they attribute the current political mess to an absence of change. They miss the point that the current malfunctioning of the political system is partially due to changes that were made in the 1990s. Those changes completely upended the coordination mechanisms that characterized the Japanese System. The resulting lack of coordination mechanisms has invited understandable failures. Confrontation between political players has intensified and it has become difficult for them to agree on any political issues.

For instance, factions (*habatsu*) of the LDP that once played a key role in forging intra-party coordination and consensus lost their power through various political reforms. That power has now shifted to LDP headquarters, but in reality, it is virtually impossible for LDP leaders at headquarters to coordinate among all members of the LDP. As a result, the leadership, especially the prime minister, now faces an extremely difficult task trying to forge agreement inside the party.

The weakening of intra-party coordination mechanisms severely affects the ability of the government to implement unpopular policies, such as those now required to restore the country's financial system. Today, when LDP leaders attempt to implement difficult policies, LDP backbenchers often publicly denounce the leadership in the media. In comparison, under the 1955 System, the consumption tax was successfully introduced in 1989 despite fierce opposition within the LDP. That was made possible because powerful faction leaders cooperated and suppressed the resistance of backbenchers.

Inter-party coordination mechanisms have also eroded significantly. With the introduction of the single-seat constituency system by the Hosokawa administration, a two-party system emerged, and confrontation intensified between the LDP and the Democratic Party of Japan (DPJ).

The emergence of a divided Diet after the 2007 election of the House of Councilors accelerated this trend. Indeed, the bitter confrontation between the LDP and DPJ was said to be one of the major reasons why Prime Ministers Abe and Fukuda abruptly resigned. In 2008, the DPJ twice vetoed the ruling LDP government's nominees for governor of the Bank of Japan, the country's central bank. Despite the severe global financial crisis, this was the first time since the end of World War II that the governorship of the Bank of Japan was left vacant.

With the end of the 1955 System, coordination failures have also arisen between politicians and bureaucrats. Perhaps one of the reasons why the accumulation of public debt is now at such historic levels is the lack of coordination mechanisms. As for bureaucracy bashing, even some LDP politicians are jumping on this bandwagon to increase their popularity. Bureaucrats are quickly losing their credibility and motivation to act as coordinators in the policy process.

WHERE SHOULD WE GO?

If the change one seeks in Japan is simply to destroy the old regime, "coordination failures" are not a major consideration. Thus, when Koizumi proclaimed during the LDP presidential election campaign, "I shall destroy the LDP," perhaps he thought very little about what would happen post-destruction.

Real change, however, requires not only the destruction of the old system but also the building of a new system that incorporates various coordination mechanisms. Without such a new system, it

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will be difficult for political and economic players to work together or for change to continue.

As we saw earlier, massive institutional changes during the 1990s led to the erosion of the Japanese System. Japan has not yet found a replacement, and it struggles with the transition. Coordination failures in this transitional period are causing political and economic problems.

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Then where should we go? One current idea is to reverse course and learn from the past. This notion, usually proposed by conservatives, seems to be earning increasing support from the pub-

lic, especially in light of the current global crisis. The logic is simple: Since the US model has proven flawed, and since the current political and economic situation in Japan is a total mess, we should go back to the old Japanese System and revive our traditions.

This conservative argument, in my view, is both inappropriate and unrealistic. The Japanese System did not stand by itself. The environment of the time — notably, rapid economic growth and peoples’ perceptions — supported it and led to particular trust in bureaucracy. Since the conditions have changed drastically in recent decades, it is impossible for Japan to go backwards.

To reiterate, Japan is now in transition. The search for a new system that incorporates effective coordination mechanisms will take more time than both reformists and conservatives anticipate. We need to be patient. To fix coordination failures, a new set of networks and institutions have to be built from scratch. The new system has to be more open and more horizontal than the 1955 System and it also has to utilize Japanese values and norms.

One might argue that given pressing economic and social problems, Japan does not have time to be patient. Here the role of effective leadership becomes critical. If a leader can articulate a clear vision of a new system on the horizon and earn public trust, the process can be drastically shortened.

But, of course, after the change is achieved, leadership will ultimately determine whether the new system is effective and stabilizing.

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