

CHAPTER 2

THE EVOLUTION OF POLITICAL CHANGE IN JAPAN

Japan's post-1947 parliamentary system

2.1 Under the constitution adopted in 1947, the Diet (parliament) consists of a popularly elected House of Representatives (lower house) and House of Councillors (upper house). The Prime Minister is selected by a majority vote in both Houses, and is nominally appointed by the Emperor. Since the Liberal Democratic Party (LDP) has held power in Japan virtually from its inception in 1955, the LDP President has routinely been installed as Prime Minister.¹ The LDP President is elected to a two-year term at the party convention on the basis of factional politics. Ostensibly, cabinets are formed following the selection of a new Prime Minister and after each election of the Lower House. In practice, cabinet posts have been reshuffled much more frequently, due to factional politics. The Prime Minister and his cabinet have important judicial and legislative powers as well as executive responsibilities.

2.2 Voting to elect members of the Diet is voluntary and the minimum voting age is twenty years. Members of the Lower House are elected for a four-year term, although in practice it is generally dissolved and elections called before the four-year term is finished.

2.3 The Lower House election of October 1996 was the first held under the new electoral system introduced in 1994. The new system provides for a 500-seat Lower House, with 300 seats elected from single-seat districts and the remainder from multiple-seat districts through a system of proportional representation. There are also rules restricting financial contributions to individual candidates, while providing reasonably generous public funding to parties, based on the proportion of the vote obtained in the previous election.

2.4 Members of the Upper House are elected for a six-year term, with half the members having to stand for election every three years. For the Upper House, there are two levels of election. The first comprises a proportional representation system of 100 members (ie voters cast their ballots for their preferred party and seats are apportioned on the basis of each party's performance, the winners being selected according to lists of candidates submitted by the parties before the election). The second level comprises 152 members elected from the 47 prefectures, each constituting an electoral district of two to eight members. In an Upper House election, therefore, voters cast two

1 The exceptions being Morihiro Hosokawa (Japan New Party) August 1993–April 1994, Tsutomu Hata (Japan Renewal Party) April–June 1994, and Tomiichi Murayama (Social Democratic Party) June 1994–January 1996.

ballots—one in the national constituency and one in the prefectural constituency to which they belong.

2.5 There are three kinds of Diet sessions. First, the Diet is required under the Constitution to meet for an Ordinary Session once a year. The term of an Ordinary Session is 150 days, although commonly there is an extension of varying length. The Ordinary Session, as a rule, begins in December. Second, the Cabinet may determine to convene an Extraordinary Session of the Diet when deemed necessary. An Extraordinary Session of the Diet must also be convened when demanded by a quarter or more of the members of either House. Third, a Special Session of the Diet must be called within thirty days of an election for the House of Representatives, principally for the purpose of appointing the Prime Minister. The Diet normally holds two sessions a year; an Ordinary Session in the first half, and an Extraordinary Session in the second half.

2.6 A Bill becomes law on passage through both Houses of the Diet. When a Bill is passed by the Lower House, but not by the Upper House, it becomes law when passed a second time by a two-thirds majority of the Lower House. There is, however, provision in such cases for a meeting of a joint committee of both Houses. In the case of the budget and Diet approval for the conclusion of treaties, when the Upper House makes a different decision from the Lower House and when agreement still cannot be reached through a joint committee of both Houses, the decision of the Lower House prevails. The Lower House also has the overriding authority in the designation of the Prime Minister and the determination of the term of the Diet's sessions.

2.7 The Japanese emphasis on obtaining a consensus rather than the assertion of majority rule means that Diet deliberations can be long and slow. Governments are unwilling to use their numbers to push through legislation but rather frame or amend draft legislation to take opposition concerns into account. Cabinet meetings, on the other hand, tend to be short and more perfunctory, reflecting the power of the bureaucracy and political party machinery in policy formulation and determination.

Politics during the Cold War period

2.8 The post-war American Occupation of Japan introduced fundamental changes to the political system, including a new constitution and democratic pattern of government. It also led to the establishment of the United States–Japan Security Treaty, which continues to define the parameters of Japan's foreign and defence policies.

2.9 In the immediate aftermath of defeat, the Liberal Party emerged under the American Occupation as the governing party under the leadership of Shigeru Yoshida. Following the end of the Occupation in 1952, this merged in

1955 with Ichiro Hatoyama's Democratic Party to form the Liberal Democratic Party (LDP), which has held power virtually continuously since then.

2.10 The formation of the Liberal Democratic Party (LDP) internalised the political divisions on the right; the parties which merged preserved their identity by becoming parties with the Party, called factions (originally eight in number), which fought each other for the prime ministership. Kakuei Tanaka and Noboru Takeshita, for example, belonged to the faction which was originally Yoshida's Liberal Party. Faction leaders controlled the funds which were essential to the advancement of their juniors in politics. Beyond the factions, Yoshio Kodama remained influential in the appointment of all prime ministers from Kishi to Yasuhiro Nakasone (the youngest member of Kishi's cabinet), who became Prime Minister in November 1982. Kodama died in January 1984.²

2.11 The LDP won broad electoral support for its twin goals of 'economic catch-up' with the West and limited re-armament within the framework of the security alliance. The Japan Socialist Party (JSP) quickly established itself as the major left-wing opposition force; over time, the JSP underwent a number of splits, eventually in 1995 becoming the Social Democratic Party of Japan (SDPJ). The Japan Communist Party (JCP) was accorded legal status in late 1945 (having been banned until then). The Clean Government Party or Komeito, which is affiliated with the lay Buddhist organisation Soka Gakkai, was established in 1964.

2.12 During the Cold War, the US 'nuclear umbrella', combined with the benefits of GATT membership, created a favourable external environment for Japan's economic reconstruction. In an alliance with the bureaucracy and big business, the LDP avoided controversial foreign policy initiatives, focusing instead on domestic economic objectives. The LDP implemented policies developed principally by government ministries in close consultation with peak industry organisations. High economic growth throughout the 1950s and 1960s benefited all citizens, and the LDP was easily able to secure a popular mandate. In distributing the benefits of economic growth, however, the LDP sought to reward its principal supporters—business, agriculture and the bureaucracy—through initiatives including public works projects and a range of economic assistance measures.

2.13 Peter Hartcher, Asia-Pacific Editor, *Australian Financial Review*, pointed out that while the end of World War II was an important beginning in many ways, there was solid continuity in two of the mainstays of pre-war Japan. One was the financial system. The other was the people who operated it—the financial bureaucracy. While the American Occupation—SCAP

2 'Kodama Leaves Debts to Kin; Tax Authorities Freeze Assets', *The Japan Times*, 24 January 1984; *Mainichi Daily News*, 19 January 1984

(Supreme Commander Allied Powers)—purged 210,000 people from public life, it purged only 2,000 from the civil service, and these were concentrated in the military bureaucracy and the Ministry of Home Affairs (*Naimusho*). The department that operated the economy and the financial system, the Ministry of Finance, lost just nine officials to the purge.³ Continuity in Japan's financial system since that time was explained in 1977 by Yukio Noguchi and Eisuke Sakikibara, both former Finance Ministry officials:

We believe the economic system which until now has supported high growth is fundamentally a continuation of the wartime system of total mobilisation of economic resources... Financial controls constituted the core of the economic system for all-out war, as is made clear by the Bank of Japan Law... Patterned after the Reichsbank law of Nazi Germany, the law was promulgated in 1942 as a consummation of the wartime institutions for the control of financial activities, and today it remains in existence as a fundamental part of the Japanese financial system... the bank's goal changed from the execution of war to the achievement of economic growth in the postwar period, but the system itself, geared as it was to all-out war, remained intact in spite of Japan's defeat.⁴

2.14 In the post-war years, Japan's government, particularly through the powerful Ministry for International Trade and Industry (MITI), pursued interventionist policies to promote industrial development. MITI was able to use its powers over access to foreign exchange to influence private firms in their investment plans. The government also sought to advance stable processes of development by encouraging companies in particular industries to form cartels so as to avoid bankruptcies during periods of downturns or bouts of excess capacity. Richard Katz has argued that:

The rationale was to reduce risk, thereby inducing firms to invest at higher rates. Cartels fixed prices and imposed limits on capacity and output. Companies that did not want to join were often coerced into doing so. After all, a cartel cannot operate if a 'betrayor' (in Japanese corporate parlance) is undercutting its monopoly prices. In a famous case in 1978, Tokyo Steel, an efficient minimill, was threatened with fines because of its resistance to joining a cartel.⁵

3 Eisuke Sakikibara, *Beyond Capitalism: the Japanese Model of Market Economics*, Lanham (MD), University Press of America, 1993; cited in Peter Hartcher, 'Can Japan Come Back?', *The National Interest*, no. 54, Winter 1998/99, p. 35

4 'Okurasho-Nichigin ocho no bunseki', *Chuo Koron*, August 1977, published in English as 'Dissecting the Ministry of Finance-Bank of Japan Dynasty', *Japan Echo*, vol. 4, no. 4, 1977; quoted in Peter Hartcher, 'Can Japan Come Back?', *The National Interest*, no. 54, Winter 1998/99, p. 35. See also Yukio Noguchi, 'The Persistence of the 1940 Setup', *Japan Echo*, vol. 24, special issue, 1997

5 Quoted in Richard Katz, 'The System that Soured: Towards a New Paradigm to Guide Japan Policy', *The Washington Quarterly*, 21, 4, Autumn 1998, p. 49

2.15 The aim of cartels during the era of high growth after the late 1940s was to promote investment in rising sectors. This policy (along with other areas of government support) did help in many sectors. However, the policy also had some in-built pitfalls. Companies liked the cartels because they limited price competition and helped entrenched firms keep out newcomers—especially foreign companies who might create ‘confusion in the market’. It has been estimated that by 1970, in half of the manufacturing sector, market determined prices did not prevail. In 1975, the Japanese economist Hitora Ueno warned of the potential adverse consequences of this kind of approach:

Groups and organisations that were artificially created to meet the need of a specific system tend to grow with this system into powerful champions or political pressure groups that can no longer be controlled by this system.⁶

2.16 What happened in Japan, as Katz (along with other analysts) has argued, is that the pattern of controls, cooperation and collusion fostered both strong, competitive industries, and weaker, uncompetitive sectors. Both stronger and weaker sectors were part of the same system, which emphasised cooperation and compromise. Both types of sector were able to gain assistance and support from the political system, dominated by the Liberal Democratic Party.

2.17 Although the LDP was the predominant political party after 1955, it faced competition from the opposition parties particularly in Japan’s urban areas. The weaker and less competitive sectors of the economy could exert pressure on the governing LDP through the ballot box if they did not gain satisfactory levels of government support. The LDP government was effectively able to distribute some of the benefits of the growth achieved by the economy’s efficient sectors (cars, electronics, shipbuilding etc) to compensate sectors who were in danger of being ‘losers’ in the process of development in postwar Japan. A complex relationship developed between government and business in which the government was an influential director of development patterns, but was also vulnerable to pressures from the industry sectors it oversaw.

2.18 An example of the politics of government–business interactions was provided by the small business sector in the 1970s. In the 1950s and 1960s, the LDP, with a secure majority in parliament, had favoured large business over the small business sector. Many small businesses resented this and began to give support to the opposition socialist and communist parties (by 1971, one-sixth of small businesses were involved with the Communist-affiliated small business federation). In response, the LDP government distributed billions of dollars in no-collateral loans to small business. In 1973, the government also passed the Large Scale Retail Store Law, which allowed small retailers to

6 Quoted in Richard Katz, ‘The System that Soured: Towards a New Paradigm to Guide Japan Policy’, *The Washington Quarterly*, 21, 4, Autumn 1998, p. 50

obstruct the expansion of department stores, thereby enabling the small retailers to raise prices. The LDP applied a similar approach to shore up support in rural areas:

By the 1980s more than 75 per cent of all farm income came from subsidies and price support programs—a percentage far higher than in any other industrial state, including France. The LDP repeatedly turned down requests by the big business federation, the Keidanren, to lift restrictions in agricultural imports.⁷

2.19 In this situation, ministries which were supposedly regulating and controlling industry sectors could easily become captives of the industries they were supposedly guiding. The dilemma which arose for Japan from the 1980s has been aptly summed up by Katz:

Government policy was continually confronted with the trade off between promoting winners and compensating losers, between producing wealth and distributing it. Tokyo did not choose between these two options—it did both. As James Vestel documents, Tokyo’s ‘pro-growth’ measures gave aid to such key export industries as shipbuilding, steel, synthetic fibers, and automobiles. Meanwhile its ‘anti-growth’ policies handed out heavy subsidies and abundant government loans to preserve employment in such flagging sectors as coal mining, sake brewing, farming and small business. Over time, the balance shifted. Pro-growth elements predominated before 1973, anti-growth elements after 1973.⁸

2.20 While Japan’s economic management policies produced many benefits in the phase in which it was ‘catching up’ with the US and Europe, these policies became a liability when the economy matured:

The very nature of an economy in the state of catch-up is that it contains a plethora of true infant industries. Consequently, on balance catch-up era policies benefited Japan... Development state policies made sense only for an economy still in the state of development, but Japan refused to let go of the industrial policy model. Even worse, the tactics of protection and promotion were now used to shield losers from competition at home and abroad. As this happened, Japan turned into a ‘deformed dual economy’—a dysfunctional hybrid of super-strong exporting industries and super-weak domestic sectors. The dual economy could be sustained only as long as the efficient exporters earned enough to keep propping up the weak domestic sectors... But over time the burden became too great. In response, many of Japan’s efficient exporters fled overseas... As

7 Richard Katz, ‘The System that Soured: Towards a New Paradigm to Guide Japan Policy’, *The Washington Quarterly*, 21, 4, Autumn 1998, p. 52

8 Richard Katz, ‘The System that Soured: Towards a New Paradigm to Guide Japan Policy’, *The Washington Quarterly*, 21, 4, Autumn 1998, pp. 52–3

Japan's efficient sectors hollowed out, the domestic economy became increasingly dominated by its low productivity sectors.⁹

The '1955 political system'

2.21 Dr Aurelia George Mulgan submitted that:

From the mid 1950s to the early 1990s, Japanese party politics followed a remarkably stable pattern known as the '1955 political system'. The essence of this system was that the LDP was the perennial ruling party facing a permanent, 'structural', Opposition. The '1955 political system' comprised a basic left-right division, with government in the hands of a united conservative party and a fragmented Opposition of so-called 'progressives' on the left and centre-left. This basic left-right divide was grounded more in differences over the Cold War and foreign policy than in differences over domestic policy. The right led by the LDP supported the anti-communist line of the United States and the US-Japan Security Treaty, while the left led by the JSP opposed the alliance relationship with the United States and the existence of the Japanese Self-Defence Forces (SDF).¹⁰

2.22 Albert L Seligmann has summarised the basic reasons underlying the LDP's hegemony (*haken*) from 1955 to 1992:

- Postwar land reform had converted a discontented peasantry into a solid conservative constituency. At the time, the vast majority of Japan's population was rural compared with a farm population of under 5 per cent today, but as mass migration to the cities got under way, electoral re-apportionment did not keep up (and has yet to catch up).
- Japan's sustained and at times double-digit economic growth left little room for voter discontent. Expectations rose but LDP-led governments by and large managed to meet them. Democratic centralism was a failure in the so-called socialist countries but seemed to work in Japan, whether it was nationwide health insurance or infrastructure.
- The opposition was badly fragmented. If voters on occasion were inclined to 'teach the LDP a lesson' for one reason or another, they were hesitant to rock the boat too much, and even more reluctant in periods of economic uncertainty than when all was going well. In any event, there seemed little prospect for a realistic alternative regime.

9 Richard Katz, 'The System that Soured: Towards a New Paradigm to Guide Japan Policy', *The Washington Quarterly*, 21, 4, Autumn 1998, p. 54

10 Dr Aurelia George Mulgan, submission no. 20, p. 35

- The Cold War was a strong disincentive to change, especially as long as the Socialist Party, a necessary partner in any opposition administration, adamantly opposed the US-Japan alliance and questioned the constitutionality of Japan's Self Defense Forces.
- The LDP retained a near monopoly on leadership talent, drawn in large measure, especially in the first part of the LDP era, from experienced, senior bureaucrats. The top politicians were not only formidable leaders in their own right, but they enjoyed close cooperation with the government ministries, enabling them to get things done.
- The business community assured the LDP a steady flow of political funding that was more than a match for the opposition.
- Finally, the election system itself worked in favour of the LDP. Especially as the party faced up to the perils of *ranritsu* (running more candidates in a district than could plausibly hope to be elected), and incumbents built up strong support organizations (*kôenkai*), it became difficult to dislodge more than a handful of LDP incumbents in any one election—and there was always the sympathy vote to bring them back the next round.¹¹

2.23 As a result of the United States guaranteeing Japan's security, the LDP was able to form an economic and industry policy, particularly industrial growth and exports. The LDP was thus able to provide a level of political and economic stability for Japan that the people supported.

2.24 Dr Aurelia George Mulgan submitted:

Apart from defence issues, inter-party debate on policy issues was generally lacking and the opposition from the JSP and other parties was often ritualistic. Behind the scenes, Opposition politicians were often bargaining with the LDP, securing benefits for themselves in return for ensuring enactment of government legislation. The JSP and LDP basically joined hands in Diet politics with the result that much of what happened in the Diet was scripted beforehand.¹²

2.25 Yoshimichi Hironaka, the political editor of the *Yomiuri* newspaper, explained:

Behind closed doors they would actually write a script for what was going to happen in parliament. For instance, they might agree that the party in power would move to gag debate, then the Opposition would rush and surround the chairman and certain members of the

11 Albert L. Seligmann, 'Japan's New Electoral System: Has Anything Changed?', *Asian Survey*, vol. XXXVII, no. 5, May 1997, pp. 410–11

12 Dr Aurelia George Mulgan, submission no. 20, p. 36

Opposition would lead a walkout. This would all be scripted. A very limited number of people from the Government and the Opposition in the secretariat of the Lower House would get together to write a sort of play or drama. It has been said that the Liberal Democratic Party pays money to the Socialist Party in order to ensure their cooperation. But obviously no one is going to admit it.¹³

2.26 Dr Aurelia George Mulgan argued that the Opposition parties made little effort to become an effective opposition with the Diet and that they were supported by the electorate not as an alternative government, but simply to restrain the excesses of the LDP.¹⁴

2.27 Dr Aurelia George Mulgan submitted:

Relative to the bureaucracy, however, the LDP provided insufficient political leadership and was unable to assert the power of the elected side of politics over the bureaucrats during its long period of ascendancy. Instead of debating high-level policies in the various forums of the Diet and the party, ruling party politicians spent their time intervening in the administrative process to benefit vested interests, an emphasis which the bureaucracy was happy to accommodate in return for its continuing dominance over policy and party stability in government.¹⁵

Money politics and the 'shadow shoguns'

2.28 From the early 1970s, a further element of complexity was added to Japanese policymaking. The ruling LDP, which was always associated closely with business and a variety of other interest groups, became more deeply embedded in patterns of using resources in exchange for political support and influence. These interchanges tended to involve outright corruption. This development made the government even more sensitive to special interest groups and even less well-equipped to pursue more rational economic management.

2.29 The American analyst Jacob Schlesinger has suggested that for the LDP and Japan, 'the political costs required for holding a national scale machine together were huge, in the form of blatant favouritism, monumental pork barrel spending, and gold plated corruption'.¹⁶ In the post war period, Kakuei Tanaka (Prime Minister 1972–1974) is seen as a key figure in the advancement of what has been known widely as 'money politics'. Tanaka was highly adept at

13 'Japan's opposition unusually quiet', *AM*, 19 April 2001

14 Dr Aurelia George Mulgan, submission no. 20, p. 36

15 Dr Aurelia George Mulgan, submission no. 20, p. 36

16 Jacob Schlesinger, 'Shadow Shoguns: The Origins and Crisis of Japan Inc', *The Washington Quarterly*, Spring 1998, p. 137

gaining public spending projects for his Niigata constancy. Before Tanaka's emergence, Niigata was one of the country's poorest areas, but Tanaka gained expensive roads, bridges and train lines for it (including a hugely expensive 'bullet train' line which necessitated construction of the world's longest tunnel). Tanaka also used his political position to contribute to the development of his network of business interests.

2.30 Tanaka's use of political position for personal gain was often controversial and he was charged over the 'Lockheed scandal' in 1976, and sent to gaol. However, Tanaka's influence continued to be strong and he drew many LDP members into his faction by supporting their own efforts to exploit government-business links for their advantage. Schlesinger has written that:

While on trial for taking bribes, he could not make himself prime minister again. But his increasingly powerful national machine was able to hire and fire premiers, and, often, to make them do his bidding. Tanaka and his disciples became 'shadow shoguns', the bosses behind the throne, while Japan's titular leaders became their puppets. The Tanaka system—of a 'dual structure of power' with weak elected leaders propped up by shadow shoguns accountable to no one, of widespread manipulation of economic policy to favour specific constituents, of massive corruption contaminated Japanese politics through the early 1990s.¹⁷

2.31 The massive networks of influence organised by the 'shadow shoguns' have been seen as a major factor in the economic problems Japan has experienced in the 1990s. Ichiro Ozawa, a leading figure in the LDP who left the party in 1993 to try to stimulate reforms, wrote in his 1993 book *Blueprint for a New Japan*, that Japanese politics had been 'reduced to the task of apportioning the dividends of Japan Inc'.¹⁸ Jacob Schlesinger argued: 'The corruption and the dual structure of power undercut the ability of top politicians to make bold decisions. As unelected shadow shoguns, they had no real mandate to take strong action. Their puppet prime ministers were so emasculated they had no credibility'.¹⁹ While the basis for the system of power developed by Tanaka and his allies has crumbled, Japan is still struggling with its legacies.

17 Jacob Schlesinger, 'Shadow Shoguns: The Origins and Crisis of Japan Inc', *The Washington Quarterly*, Spring 1998, p. 141

18 Ichiro Ozawa, *Blueprint for a new Japan: the rethinking of a nation*, translated by Louisa Rubinien, New York, Kodansha International, 1994

19 Jacob Schlesinger, 'Shadow Shoguns: The Origins and Crisis of Japan Inc', *The Washington Quarterly*, Spring 1998, p. 143

Challenges to the '1955 political system'

2.32 After more than three decades of political stability under the '1955 political system', cracks began to appear in the political order. This was due to the end of the Cold War and other changes in the international environment as well as domestic changes. Dr Aurelia George Mulgan observed that:

The end of the Cold War destroyed the underlying rationale for the confrontation between the LDP and the Opposition parties, particularly the Japan Socialist Party (JSP), over defence policy and the US alliance. The JSP was no longer needed as a check on the LDP in relation to defence and was decimated in the 1993 Lower House elections, halving its former strength. Renamed the Social Democratic Party (SDP), it was forced to become more realistic, jettisoning its traditional policies of opposition to the US–Japan Security Treaty and the Japanese Self–Defence Forces.

2.33 At the same time, the LDP was rocked by a succession of money scandals, particularly the Recruit scandal (1988) which tainted the entire leadership of the LDP and most of its members, as did the subsequent Sagawa Kyubin scandal (1992). An article in the September 1992 issue of the financial magazine *Zaikai Tembo* placed Sagawa Kyubin, the courier company at the centre of the scandal, within a group of nationalists and gangsters active in Manchuria and China before and during the Second World War. Many of the people active in this group subsequently became influential in the LDP.²⁰

2.34 It was during Yasuhiro Nakasone's period as Prime Minister (November 1982 to November 1987) that the large-scale bribes of politicians by the Recruit Cosmos company took place, although the scandal only came to light in the summer of 1988 during the term of his successor, Noboru Takeshita. Favoured politicians were sold unlisted shares in the company, a real estate subsidiary of the Recruit group, which when listed on the stock exchange in a booming market soon rose greatly in value. The extraordinary sums involved, the broad reach of the influence buying among politicians and bureaucrats, together with public resentment over the Bubble Economy land prices boom and the introduction of a consumption tax, caused Takeshita's popularity rating to plummet to under 4 per cent and, partly to protect Nakasone from having to testify to the public prosecutor, he announced his resignation on 25 April 1989. In the Upper House elections of July 1989, the LDP lost its majority, although it remained the largest party in that chamber.

2.35 The 1992 Sagawa Kyubin scandal gave further impetus to the consensus that was forming in Japan of the need for political change. In part, this was due to widespread concern about the 'Bubble Economy'—the abnormal rise in

20 'Japan: Money, Gangsters and Politics: An Everyday Story of Japan', *The Economist*, 26 September 1992

share values and land prices after the Plaza Accord of 22 September 1985 had produced a dramatic appreciation of the yen which, in turn, fuelled a rapid growth in capital investment and consumption and sent asset prices sky-rocketing (the bubble).²¹ When the Government tightened monetary policy in 1990 to counter these effects, share prices tumbled and land values fell. Financial institutions, especially securities companies, suffered huge losses, although all business sectors were affected.

2.36 There was also a consensus in influential circles that the parochialism of Japanese politics, the usurpation of legislative power by the bureaucracy and Japan's seeming impotence in international affairs, which came to a head during the 1991 Gulf War Crisis, when Japan's substantial financial contribution to the cost of the US-led multinational force did not buy gratitude, could not be allowed to continue.²²

2.37 There was public anger at the failure of Prime Minister Kiichi Miyazawa to assert control over the Keiseikai faction power brokers, Shin Kanemaru, Noboru Takeshita and LDP Secretary-General Ichiro Ozawa, especially after their links with gangsters (*yakuza*) and right-wing groups became known.²³ The revelation of the continuity with the Manchurian nexus established in the days of Nobusuke Kishi and Yoshio Kodama was a most unwelcome reminder of the LDP's links with anti-democratic and criminal forces.²⁴ Even the resignation of Kanemaru, at first from his party posts and then from the Diet, whereupon he was promptly arrested for alleged tax evasion, failed to satisfy the critics.

2.38 Finally, there was public anger at the blocking of the electoral reform bills before the Diet by LDP diehards. The need for electoral reform had been identified as a key issue in Japanese politics. In part because the LDP had been in power continuously from 1955, there was a commonly held view that the party had become resistant to change to the political system. There had been unsuccessful attempts at electoral reform. Prime Minister Toshiki Kaifu's government failed in 1991 in an attempt to introduce a combination of single seat electorates and seats filled by proportional representation.²⁵

21 The Plaza Accord was the agreement by the G-5 (finance ministers and central bank governors from Japan, USA, UK, Germany and France) made at the New York Plaza Hotel allowing the United States to lead the dollar lower on foreign exchange markets.

22 *The Independent*, 16 July 1993, p. 12

23 Odawara Atsushi, 'How factionalism is undermining Japanese politics', *Japan Quarterly*, XXXX, 1 (1993), pp. 29-30

24 Alec Dubro and David E. Kaplan, *Yakuza*, London, Futura, 1987, pp. 96-102, 128-144

25 Eugene L. Wolfe III, 'Japan's LDP considers electoral reform', *Asian Survey* XXXII, 9 (1992), pp. 773-786; Minoru Tada in *Japan Times Weekly*, International Edition, 3-9 May 1993; *Asahi Evening News*, 29 July 1993; Economist Intelligence Unit, EIU Country Report. *Japan*, 3rd Quarter 1993, p. 11

2.39 The Miyazawa Government was not opposed to electoral reform *per se*. The question was, how to maximise its opportunities. The political reform process was under way in the Diet when the Sagawa Kyubin scandal broke. As soon as the budget for 1993 was passed by the Diet on 31 March, the attention of members turned to the reform proposals which had been circulating since the previous year. On 2 April, the LDP introduced a package of four bills. Six days later the Opposition Social Democratic Party of Japan (SDPJ) and Komeito tabled a joint package of six bills dealing with the same matters. The two sets of proposals were debated extensively on the floor of the House of Representatives. With the Diet set to rise on 20 June, frustration set in over the delay in passing the electoral bills. More than a hundred LDP Diet members formed an association to fight their intransigent party leadership, and the opposition parties threatened to move against the Prime Minister. The LDP leadership seriously misjudged the mood in the Diet, including amongst sections of their own party. On 18 June, Prime Minister Kiichi Miyazawa's Government lost a no confidence motion by 255 votes to 220 following the defection of 39 LDP members led by Ichiro Ozawa. Hours later, Miyazawa called a snap general election for 18 July. That same evening, ten Lower House members led by Masayoshi Takemura left the LDP, forming a new party, Shinto Sakigake, on 21 June. The following day, all 43 members of the faction led by former LDP Secretary-General Ichiro Ozawa and former Minister of Finance Tsutomu Hata left the party, forming the Shinseito (Renewal Party) on 23 June.²⁶

2.40 When the votes were counted following the election it was obvious that, although the LDP was still the strongest party, both in terms of the popular vote and the number of seats gained, it no longer had a majority in the House of Representatives. On 22 July, Kiichi Miyazawa accepted responsibility for the defeat and stepped down as LDP Chairman.

2.41 On 19 July, Japan New Party (JNP) chairman Morihiro Hosokawa and Sakigake chairman Masayoshi Takemura agreed on an alliance. By 28 July, the five anti-LDP parties had agreed to the JNP/Sakigake conditions for a 'grand coalition'.²⁷ These included support for a new electoral system based on a combination electorate/party list system (the latter on a nationwide basis), and for increased penalties for violations of the Political Funds Control Law and Public Offices Election Law. The coalition partners settled on Japan New Party (JNP) chairman Morihiro Hosokawa as their choice for Japan's new Prime Minister, although the more experienced Tsutomu Hata was initially preferred by the SDPJ and Komeito. It was evident that the real power behind the

26 *Japan Times Weekly*, International Edition, 24–30.5.1993

27 The Japan Communist Party has always been 'anti-LDP', but is opposed to joining any coalition

Government was Ichiro Ozawa.²⁸ Not only were the four senior ministries filled with his Renewal Party members, but the policies enunciated by the new regime closely resembled those laid out in his book, *Blueprint for a New Japan*.²⁹

2.42 Morihiro Hosokawa was replaced as Prime Minister in the coalition government by Tsutomu Hata from the Renewal Party in April 1994. The coalition government was subsequently replaced in June 1994 (after the Social Democratic Party of Japan—SDPJ—changed sides) by another coalition of the LDP, the SDPJ and the Sakigake, with Social Democratic Party of Japan leader Tomiichi Murayama as Prime Minister. This particular combination of parties was facilitated by the fact that the LDP and JSP/SDPJ had been doing backroom policy deals for years—the SDPJ had become dependent on funds channelled by the LDP in return for accepting the role of permanent Opposition party. Most of the remaining parties amalgamated to form the Shinshinto, or New Frontier Party (NFP) in December 1994. The NFP operated as the main Opposition grouping until its dissolution in December 1997.

2.43 As a result of these developments in Japan's party structure—the temporary transfer of power to an 'Opposition' coalition and the subsequent return to rule of the LDP in coalition—the party configuration of the '1955 political system' had been transformed.

The 1994 electoral reform

2.44 The anti-LDP coalition governments of 1993–94 led by Hosokawa and Hata managed to achieve major reform of the electoral system for the Lower House. Morihiro Hosokawa later stated:

My administration, which took power as the first non-LDP government in 38 years, took up the task of implementing electoral reform. Five years had passed since electoral reform was first proposed, and opinion polls showed that the Japanese people overwhelmingly supported it. I was determined to break a political stalemate and open a new chapter in Japanese political history by changing the multi-seat constituency system.³⁰

2.45 Dr Aurelia George Mulgan submitted that the main elements of the reform were:

28 *Asiaweek*, 14 July 1993, pp. 34–43; *Economist*, 11 September 1993, pp. 23–24; Jonathan Friedland, 'Necessary caution: new government stresses continuity over change', *Far Eastern Economic Review*, 19 August 1993, 12; *Asahi Evening News*, 10–11 July 1993, 29 July 1993

29 *Nihon Kaizo Keikaku*, published in English under the title, *Blueprint for a New Japan*; See also Ozawa Ichiro, 'My commitment to political reform', *Japan Echo*, XX, 1 (1993), pp. 8–12; and *Asahi Evening News*, 10–11 July 1993; Foreign Broadcast Information Service, FBIS–EAS–93–167, 31 August 1993, pp. 8–9

30 Morihiro Hosokawa, 'LDP is up to its old tricks', *The Japan Times*, 23 October 2000

(i) replacement of the existing multi-member divisions with a combination of single member divisions, returning 300 members, and regional constituencies, returning 200 members via proportional representation and party lists;

(ii) reduction of electoral malapportionment through provision for regular redistribution by a permanent commission, charged with creating single member divisions roughly equal in population (in no case was the disparity to be greater than 2:1 between any two districts, compared with 3:1 and more previously);

(iii) limits placed on corporate contributions to individual candidates (limited to 500,000 yen annually), with state subsidies (up to an overall level of 30.9 billion yen) for parties to compensate for the reduction in private donations (door-to-door campaigning remained prohibited because of fears that it would foster corruption and vote-buying).³¹

2.46 Dr Aurelia George Mulgan went on to say that the main rationale for the reform was:

(i) to encourage the formation of a two-party system in which two major parties would compete for government on the basis of policies instead of the existing, looser party system where individual politicians vied for support by parcelling out pork barrel favours to their supporters;

(ii) to reduce intra-party competition encouraged by multi-member divisions and thus reduce the need for individual candidates to seek large personal campaign contributions, thereby decreasing the costs of election campaigns and lessening the incentives for corruption;

(iii) to undermine the basis of the party factions by eliminating intra-party electoral competition on a factional basis in the multi-member divisions and by reforming the political funding system;

(iv) to reduce malapportionment which particularly favoured rural interests represented by the LDP.³²

A Two-party system?

2.47 It was too early to determine whether the electoral reforms will fulfil the expectations claimed by reformers and whether a strong two-party system will emerge from the reforms.

31 Dr Aurelia George Mulgan, submission no. 20, pp. 38–9

32 Dr Aurelia George Mulgan, submission no. 20, p. 39

2.48 In favour of this development is the likelihood that:

party affiliations of candidates will become more important because there will be no need to differentiate candidates from within the same party in electoral competition. This could lead to a greater emphasis by candidates and voters on party policies as the basis of support rather than the personal attributes of particular candidates. Candidate success or failure would potentially be tied more closely to party considerations and associated factors such as national leadership and perceptions acquired through the mass media. For both voters and candidates, there would probably be more attention given to party identity, party principles and party policies with competition taking place between parties in terms of both national and local policies. This development would be reinforced by the party list system in the proportional representation regional constituencies. Party choice would be sufficient for voter choice in a way that it was not in the past.³³

2.49 Dr Aurelia George Mulgan went on to say that, also, the new electoral system, based in large part on single member districts, would work in favour of the larger parties.

Whereas under the old system, some candidates could easily win with as little as 10–15 per cent of the total vote in any district, under the new electoral system, they will need at least 30 per cent of the total vote. This will tend to encourage large, broadly-based parties occupying the middle-ground in the electorate. Moreover, it will take a sizeable, well funded organisation to run a candidate in all or most of the 300 SMDs. This is mandatory if a party is serious about winning government. So, in the SMDs, it will be much more advantageous for candidates seeking re-election to belong to a big party. This will squeeze out the smaller parties, which may fall between the cracks of the larger parties. This effect was already observable in the 1996 Lower House elections, the only held under the new system, where the two largest parties, the LDP and the NFP, were successful in the great majority of SMDs.³⁴

2.50 The trend was accentuated in the 26 June 2000 Lower House elections, and in the 29 July 2001 Upper House elections.³⁵

2.51 This also applies to factions within the LDP: rival LDP candidates no longer fight each other to get elected in multi-member divisions; they fight for pre-selection as the endorsed LDP candidates in the single member divisions.

33 Dr Aurelia George Mulgan, submission no. 20, p. 40

34 Dr Aurelia George Mulgan, submission no. 20, pp. 40–41. Since her submission, two further elections have been held.

35 ‘Candidates slide in despite weak support’, *The Japan Times*, 29 June 2000; ‘Japan ruling parties secure stable majority in upper house’, *Nikkei*, 30 July 2001

The strongest contenders are those most likely to win locally. The most powerful faction (the so-called 'Takeshita faction', led by Keizo Obuchi and most recently by Ryutaro Hashimoto) has benefited most from electoral reform.³⁶ It has been able to get its members nominated as candidates in the best divisions and placed at the top of the party's list in the single member divisions. The consequence has been that members of the smaller factions have little incentive to remain in the LDP if they cannot win nomination as candidates; instead, they tend to break away to form their own parties.

2.52 There are a number of factors working against change. The electoral system is not just a single member system. Considerable encouragement is still offered to minor parties, both through the 200 regional party list seats as well as through the Upper House. In the first election following the 1994 reform, on 26 October 1996, the regional party lists returned members from as many as seven separate parties.

2.53 Dr Aurelia George Mulgan submitted that:

According to some analysts, Japan lacks the kind of social cleavage needed for the emergence of a stable two party system. The kind of class structure that existed in Great Britain and elsewhere and which formed the original, if now more attenuated, basis for identifying the major parties does not exist in Japan. Although the Japanese population can be differentiated according to standard economic indicators such as income, people in different economic classes tend to be strongly tied to each other through shared membership of groups such as large business corporations, small and medium enterprise companies, government agencies, rural communities, religious and other social groupings. In contrast, whatever bonds that exist between those at the same economic level across groups tend to be weak. That is, the ties between the manager of a business corporation and his workers tends to be fairly firm and to overwhelm whatever ties which exist between fellow factory workers who belong to different corporations. This exemplifies the orthodox notion of a 'vertical society' in Japan. If this proposition holds true, political competition is more likely to take place between two nearly equally rich groups instead of between a rich and poor group. Furthermore, in terms of other characteristics such as ethnicity, language, religion and region the extent of cleavage in Japan is not as strong as in many European democracies and these characteristics are unlikely to serve as a social foundation for any major political party.³⁷

2.54 Dr Aurelia George Mulgan observed there was still little effective political debate on concrete policy alternatives or disagreement between

36 'Obuchi's faction retains seats, influence in LDP', *The Japan Times*, 27 June 2000

37 Dr Aurelia George Mulgan, submission no. 20, pp. 41-2

political parties on policy specifics. Because the parties remained essentially coalitions of individuals behind certain leading politicians, they did not represent unified policy positions.³⁸

2.55 Although the electoral system has been changed, the power structure remains largely intact. 'Political power remains diffused amongst politicians, bureaucrats, business elites and other vested interest groups and thus the capacity of elected politicians to assert control over government policy is much less than in most western-style democracies such as Australia. Even if a single party government had a clear electoral platform, there is no guarantee that this would translate into an authoritative mandate accepted by the bureaucracy and other powerful groups.'³⁹

2.56 In such circumstances, it would appear that strong party identification, as required for a stable two party system, will be hard to develop. Keiko Tabusa observed the October 1996 Lower House elections and found the way in which campaigns were conducted in the single member districts did not provide much indication that change was occurring in this direction. With respect to the issue of policy-based competition between parties in the new constituencies, the Japanese media reported that factors relating to party affiliation and policies remained of secondary importance in election campaigns, especially for single member district competition. One senior LDP member was quoted as saying that 'candidates are taking orders from local communities' as they needed to be sensitive to local voter interests to win the election. Many candidates relied on their own personal support organisations (*kôenkai*) to win votes in the districts.⁴⁰ Other commentators described the single seat districts as 'personality-centered single seat constituency races... [where] candidates with established local reputations will be in a strong position'.⁴¹ Rural electorates, in particular, remained preoccupied with local issues and old style politics based around established networks of groups and personal-style connections. One media analyst made the point that candidates who were elected in rural areas 'told voters that the government should provide enough money for public works or should construct new tracks for bullet trains as early as possible. They want to keep the traditional system'.⁴² According, to Shusei Tanaka, former Director-General of the Environment Protection Agency, former Vice-President of Sakigake and Sakigake Cabinet member in

38 Dr Aurelia George Mulgan, submission no. 20, p. 43

39 Dr Aurelia George Mulgan, submission no. 20, p. 45

40 Keiko Tabusa, 'The 1996 General Election in Japan', *Australian Quarterly*, vol. 69, no. 1, 1997, pp. 28-29

41 *Nikkei Weekly*, 30 September 1996

42 *Nikkei Weekly*, 28 October 1996

the first Hashimoto Cabinet, single seat district races tended 'to favour candidates who give priority to local interests'.⁴³

2.57 In city districts, the LDP and New Frontier Party both fought to win favour with conservative voters, centring their campaigns on candidates' organised support groups (*kôenkai*) as well as organised interest groups that operated in the cities, such as doctors, veterans and some business and industry groups, those groups on which the LDP has traditionally relied in more urbanised areas.⁴⁴ The New Frontier Party's main supporting interest groups were those that used to vote for two of the parties it amalgamated: the neo-Buddhist Soka Gakkai organisation (the principal support group of the Komeito) and private sector trade unions (previously the main underpinning of the DSP), plus those groups that previously voted for former LDP members.

2.58 In other words, electoral competition in the form of a party-dominated, policy-focussed contest did not really materialise in the first elections held under the new system. Although it was possible to differentiate party policy positions on popular issues of the day, like tax reform and administrative reform, political parties remained predominantly groups of like-minded politicians, bound together by personal loyalties and connections rather than ideological or policy based commonalities. Party identification was certainly not strong enough to neutralise voters' predisposition to vote on the basis of candidates' personal attributes or to interfere with traditional particularistic connections and support networks, although some voters did respond more to issues, especially in the cities and in the regional bloc districts. In the main, however, the two major parties—the New Frontier Party and LDP—seemed to rely heavily on their traditional support groups to win votes. Only the Democratic Party worked to exploit voter disenchantment with the mainstream and developed an appeal based on the political principles for which the party stood.

2.59 By the time the next Lower House elections were held on 26 June 2000, the New Frontier Party had disbanded, and the Democratic Party had become the largest opposition party. Professor of political science at Tokai University, Kenzo Uchida, commented: 'The latest election results appear to prod Japan toward a two-party system'.⁴⁵

2.60 Generally speaking, Japanese political parties have failed to alter their fundamental character as weak, loosely organised groupings with only an amorphous identity on policy issues. At the grass roots, other organisations such as interest groups and politicians' own personal support organisations (*kôenkai*) continue to step into the breach to compensate for the lack of strong,

43 *Nikkei Weekly*, 28 October 1996

44 *The Australian*, 21 October 1996

45 Kenzo Uchida, 'Setback for ruling coalition', *The Japan Times*, 30 June 2001

viable mass-based local party groupings. Dr Aurelia George Mulgan told the Committee:

The challenge for the opposition is to unite around a policy platform that is a clear alternative to the ruling party. One of the reasons why the differences between the parties is so nuanced is because of the nature of these parties themselves. They are collections of like-minded individuals rather than coalitions of politicians around consistent policy positions derived from some kind of shared ideological world view. In other words, personalities count for a lot more in the formation of these parties than policy principles do. Within each of the parties there are individuals who in their policy positions are actually closer to some individuals in other parties than they are to some of the others in their own party.⁴⁶

An end to money politics and pork barrelling?

2.61 Dr Aurelia George Mulgan submitted that:

It is too early to say whether the elimination of intra-party competition in the new electoral system, limitations on campaign expenditure and public subsidies to the political parties will lead to a reduction in corruption and money politics generally. Certainly, the stiffer penalties on corruption do appear to have had a dampening effect.

The strong inclination for candidates to resort to pork barrelling in the elections, however, is still clearly in evidence, especially amongst LDP politicians. Since the early years of its incumbency, the governing LDP has focussed much of its political energies on engineering and directing outputs for the selective benefit of those that have provided it with electoral and other forms of support necessary for its long-term survival in government. The LDP adopted a Keynesian policy of demand stimulation, featuring vigorous government spending in areas such as public works construction and the development of social overhead infrastructure. The targeted sectors of pressing political concern, like construction, local finance, agriculture, and small and medium-sized enterprise, all shared in the massive flow of public spending. The LDP paid off faithful support groups through the provision of the usual rewards associated with pork barrelling. LDP support groups in the labour intensive sectors—farmers, fishermen, local construction firms, real estate interests, distributors, small retailers, and others reaped the

46 Dr Aurelia George Mulgan, *Committee Hansard*, 28 May 1999, p. 677

benefits of a continual redistribution of income as Japan's industrial economy expanded.⁴⁷

Pork barrelling was facilitated by the pre-1994 electoral system, which encouraged intra-party competition between candidates vying for local support. Reinforcing the system was the quasi-permanent nature of LDP rule, which enabled the party to refine the techniques of largesse and build vested interests around the special favours and benefits it bestowed. As a result, local patronage considerations became a consistently intrusive element in the Japanese policy process, difficult to eradicate because of the expectations and demands they created, and particularly salient in policies affecting those domestic sectors in which large numbers of LDP supporters were located.⁴⁸

2.62 The post-1994 electoral system may not end the system of pork barrelling but change its method of operation. Rather than the candidates within a party using the system to gain electoral advantage, it is likely that parties may take over this role in single-member seats. Candidates still have to devote considerable time to win support from influential local interests by securing and offering largesse from their parties. The emphasis, then, is still focussed on local issues rather than national issues espoused by their parties. The well established links between the LDP and the bureaucracy will no doubt give that party an advantage in securing and distributing patronage.⁴⁹

2.63 It has been noticeable that, there is a greater trend to national issues in urban rather than rural seats. Similarly, more attention is paid to national issues in proportional representation districts than in single-member constituencies. However, the level of debate on such issues in both areas is still muted compared with democratic parliamentary systems in other countries.⁵⁰

2.64 Junichiro Koizumi led the ruling coalition to victory in the 29 July 2001 Upper House elections promising an end to pork barrel politics by slashing public spending, cleaning up the huge overhang of the banks' bad debts dating from the Bubble Economy excesses, and de-regulating protected industries. This was the first national election in which the central issue was how to share the pain of reform, not the benefits of economic growth. Professor Kuniko Inoguchi of Sophia University commented that the election result represented a

47 Daniel Okimoto, *Between MITI and the Market: Japanese Industrial Policy for High Technology*, Stanford: Stanford University Press, 1989, pp. 186–187, cited in Dr Aurelia George Mulgan, submission no. 20

48 Dr Aurelia George Mulgan, submission no. 20

49 Otake Hideo, 'Forces for Political Reform: The Liberal Democratic Party's Young Reformers and Ozawa Ichiro', *Journal of Japanese Studies*, vol. 22, no. 2, 1996, p. 281, cited in Dr Aurelia George Mulgan, submission no. 20

50 Kitaoka Shinichi, 'The Changing Dynamics of Party Politics', *Japan Echo*, vol. 24, no. 1, Spring 1997, p. 15

change in Japanese society, with voters trying to build the foundations for a stronger society rather than obtain immediate economic benefits: ‘Japanese people are looking beyond short-term economic growth to a long-term vision of building a more fair, transparent and human society’.⁵¹

2.65 In her submission to the Committee, Dr Aurelia George Mulgan concluded:

Japanese politics is still in transition and will remain confused until new dividing lines have been drawn on the issues facing the nation. It will take a few general elections under the new electoral system before new patterns will be able to be seen. In the meantime, the LDP is likely to continue to prosper in spite of the state of the economy, largely by default while the Opposition remains divided. At the same time, Japanese voters, while deeply disillusioned with the excesses of money politics and political corruption, still expect their politicians to deliver material benefits to local interests and are still ready to punish them at the ballot box if they fail to favour their supporters. Under these conditions, many politicians are finding it hard to rid themselves of the residues of the old system.⁵²

Politics following the 1994 electoral reform

2.66 The LDP’s Ryutaro Hashimoto took over from the Social Democratic Party of Japan’s Tomiichi Murayama as Prime Minister when the latter resigned in January 1996. Hashimoto led the largest LDP faction, which had previously been led by Noboru Takeshita. Prime Minister Hashimoto understood the need for reform if the LDP was to broaden its support base. His ‘Big Bang’ Statement on Financial Deregulation in November 1996 was followed by a major package of reform initiatives in January 1997, centring on fiscal reconstruction, administrative reform, financial system reform, economic restructuring (including deregulation) and reform of the social security and education systems. The administrative reform initiative began as the Government’s response to the electorate’s desire for a smaller bureaucracy, less prone to corruption and subordinate to popularly elected politicians. Together with the fiscal reform initiative, administrative reform was aimed at reversing Japan’s ever-increasing budget deficits.

2.67 Against a background of renewed economic growth, the LDP’s position was strengthened when it achieved a majority in the Lower House election in October 1996. Still short of a majority in the Upper House, the LDP entered into coalition once again with its pre-election partners. Reflecting the LDP’s increased strength, the post-election coalition was an informal one, with the LDP providing all members of the Ministry.

51 ‘Japan Ruling Coalition Wins’, *The New York Times*, 30 July 2001

52 Dr Aurelia George Mulgan, submission no. 20, p. 50

2.68 The Upper House election of 12 July 1998 presented the LDP with an opportunity to achieve a majority in both Houses, and the informal coalition with the SDPJ and the New Party Sakigake was dissolved. Unfortunately for Prime Minister Hashimoto, his reform agenda, while forward-looking, came too late. By the beginning of 1998, the failure of successive LDP governments to undertake substantial structural reform had resulted in weak economic growth. In addition, Hashimoto's policy of fiscal restraint was ill-timed. At a time of feeble economic growth, compounded by the effects of the Asian economic crisis, expansionary rather than contractionary measures were required. An increase in the consumption tax in 1997 from three to five per cent was resented by voters. A greatly increased turnout of voters (58.8 per cent), bitter about the Government's handling of the economy over the previous twelve months, delivered a humiliating defeat to the LDP; it won only 44 of the 126 seats on offer (instead of the 60 it was aiming for). The LDP performed particularly poorly in the geographical constituencies (its traditional and expected strength, where it won only 30 of the 76 seats on offer) and also performed poorly in the cities, winning none of the 20 seats available in the prefectures of Tokyo, Osaka, Aichi, Kanagawa, Saitama, Kyoto and Hyogo.

2.69 Some commentators sought to explain the LDP's election defeat in terms of an urban middle class electorate seeking major reforms and genuine policy options, while the dissatisfaction of rural constituents seemed to constitute a protest vote in the context of tough economic times. The newly established Democratic Party of Japan (DPJ), the largest opposition party, the Japan Communist Party (JCP) and the Clean Government Party (Komeito) were the winners in the election. These parties placed priority on permanent personal and residential tax cuts, presenting themselves most clearly as an alternative to the LDP which emphasised addressing the 'bad loans' issue as a policy priority. There was also a significant increase in the number of independents from six to twenty. The LDP's former informal coalition partners, the Social Democratic Party of Japan (SDPJ) and the New Party Sakigake also suffered a reversal of political fortunes.

2.70 Professor Robert Steven summarised developments in Japanese politics in the decade leading to 1999:

All of the governments in the last 10 years were the creations of members of or leaders of the old Tanaka faction. The old Tanaka faction was the one which came to power in Japan in 1974 on the basis of what was called 'money power politics'. Tanaka had a lot of shady interests; he was also in construction. His protégé was the former Prime Minister Takeshita... Obuchi was selected by Takeshita. His predecessor [Hashimoto] was also selected by Takeshita. The so-called 'liberal' Hata governments of the mid 1990s were selections of Ozawa Ichiro, who, we must remember, was also a member of the Tanaka faction. The Tanaka faction split into the Takeshita branch and the Ozawa branch. For quite a while Japan had a two-party system: the *Shinseito* and then the

Shinshinseito—the New Party and then the new New Party—because they tried to dress up an old thing with new clothes each time, but that was always the Ozawa grouping. For a time it seemed that Japan had a two-party system but the two parties were really led by the two groups within the old Tanaka faction. Ozawa's star has been falling and his larger grouping has since crumbled away... There was a big fanfare for quite a number of years: a new two-party system with new leaders and new policies was emerging. It has now come the full circle. The achievement of this whole thing was to decimate the Socialists, and that was really Takeshita's plan in selecting Murayama, the leader of the Socialist Party, to become Prime Minister with the support of the LDP.⁵³

Election of Prime Minister Keizo Obuchi

2.71 Prime Minister Hashimoto's early resignation to accept responsibility for the LDP's defeat in the Upper House election of 12 July 1998 set the scene for a new round of elections for senior party positions, within the LDP. Including that of party president—which carried with it the post of Prime Minister. Keizo Obuchi, who headed the LDP's largest faction, defeated Seiroku Kajiyama and Junichiro Koizumi to be elected President of the LDP on 24 July 1998. The vote, by secret ballot, involved LDP Diet members, and a representative from the party organisation of each of Japan's 47 prefectures. He was confirmed as Prime Minister at the opening session of the Diet on 30 July, and announced his new Cabinet the same day. His selections for key portfolios represented a balance of the interests of the key Liberal Democratic Party (LDP) factions and an attempt to respond to the major economic policy challenges and low popular support ratings.

2.72 The fact that Obuchi's election flew in the face of public opinion polls and market sentiment, combined with polls showing that the LDP's overall support had fallen to a new low of 20.7 per cent, caused significant concern among LDP Diet members. Prime Minister Obuchi's job therefore required a fine balancing act. With a Lower House election due in 2000, he needed to rebuild party unity and its level of public support while taking firm action to fix Japan's economic crisis. Additionally, Mr Obuchi needed to woo the support of opposition parties in order to ensure his legislative program passed through the Upper House (the LDP enjoyed a comfortable majority in the Lower House). The Komeito and the large number of independents were the principal targets of Mr Obuchi's overtures. This strategy was successfully employed to achieve passage of financial sector legislation in October 1998.

2.73 Responding to perceptions from some quarters that he was not a strong leader, Prime Minister Obuchi emphasised that it was more important for the LDP to have a leader who could build consensus to get things done than one

53 Professor Robert Steven, *Committee Hansard*, 14 April 1999, p. 290

who led from the front. Mr Obuchi was said to be too cautious in relation to the fundamental and far-reaching measures required to produce a resumption of sustained growth in the Japanese economy.

The Extraordinary Diet Session: 30 July–16 October 1998

2.74 Recognising the need for urgent action on the economic front, it was decided to convene an extraordinary Diet session, from 30 July to 16 October 1998, essentially to adopt legislation to fix the ‘bad loans’ problem.

2.75 Prime Minister Obuchi’s maiden policy speech on 7 August 1998 focussed on the need to restore economic growth and trust in the financial sector. He described the Cabinet as a ‘Cabinet for Economic Revival’, and said that restoring Japan’s own economic health would be the best way to contribute to Asia and the world. He also acknowledged that concern over the economy had led directly to the LDP’s defeat in the Upper House election on 12 July. He announced the establishment of an Economic Council, reporting directly to the Prime Minister on policy decisions. Highest priority would be given to resolving the problem of the banks’ non-performing loans, including through legislation to implement a ‘Bridge Bank’ scheme. Other initiatives included a second 1998 supplementary budget containing spending in the order of 17 trillion yen, and continued efforts on structural reform, including measures aimed at improvement in the areas of social welfare, education, urban planning and environmental policy. He sought to instil confidence in Japan’s future by emphasising its robust economic fundamentals, including its high GDP, net assets and personal savings level, and its strong social fabric, including high levels of education and work ethic.

2.76 Prime Minister Obuchi also emphasised diplomacy as a balance to domestic policy in his maiden policy speech, and indicated a continuation of the approach taken to foreign relations under the Hashimoto government. Japan would continue to play a leading role in assisting countries affected by the Asian economic crisis, basing its efforts on the IMF-centred international assistance framework.

2.77 The Opposition parties, rejuvenated by their strong performance in the Upper House election of 12 July 1998 and subsequent opinion polls, several of which showed the DPJ ahead of the LDP, adopted contrary positions on a range of issues, and successfully forced major changes in the LDP’s proposed approach to reform of the financial sector.

2.78 Although Prime Minister Obuchi secured passage of workable financial sector and economic legislation, he and his government continued to face the challenge of boosting domestic confidence in Japan and arresting the LDP’s ongoing slide in the public opinion polls.

2.79 In July 1998, when Obuchi took power, his Liberal Democratic Party did not have a majority in the Upper House, although in the Lower House it had managed to gain a majority by drawing in unaffiliated Diet members who had won in the 1996 general election, in which it had failed to win an overall majority. In such a Diet, even a bill cleared by the Lower House could be killed by an alliance of opposition parties in the Upper House. Upon assuming power, therefore, Mr. Obuchi was confronted with the difficult task of dealing with this handicap in order to attain as many of his goals as possible in the Diet. That political situation coincided with a deepening sense of financial crisis. Despite the prevailing hostile political and economic environments, however, it was incumbent on the Obuchi administration to ensure legislation that would help steer the nation's financial institutions out of the crisis. As a result, Mr. Obuchi and his party had to accept all the substantial changes to those bills demanded by the opposition in negotiations.

2.80 The precarious position of the Obuchi administration was demonstrated in November 1998 when the opposition parties adopted a decision to force Defence Agency Director-General Fukushima Nukaga to resign over a procurement scandal involving senior agency officials. Governing party leaders were faced with the prospect that the opposition groups could, if they wished, take similar action against the Prime Minister. Obuchi therefore stepped up his efforts to form a coalition with the Liberal Party in January 1999 and with New Komeito in October, thereby obtaining absolute majorities in both houses of the Diet. In so doing, Obuchi's coalition government had the budget bills debated and adopted in record time, as well as the bills for Japan-US Defence Cooperation Guidelines.

2.81 But those legislative achievements under the coalition regime were criticized because the coalition alliance was formed without seeking endorsement from the voters. Both the Liberal Party and New Komeito had criticized the LDP in the 1998 Upper House election, and their entry into coalition with the LDP was not easy to explain to the electorate. In establishing the coalition, it appeared the motivation of securing majority strength in the Diet overrode the need to build up policy agreements.⁵⁴

2.82 The numerical superiority thus achieved did not necessarily lead to real consolidation of Mr. Obuchi's power, nor to a stabilising of the nation's political situation. The recurrent moves by the Liberal Party under the leadership of Ichiro Ozawa to break with the coalition was a major destabilising factor. The need to maintain the fragile policy agreements among the ruling partners tended to prevent the timely implementation of reforms in administrative and other areas.

54 'A stewardship cut short', *The Japan Times*, 17 May 2000

2.83 In the pre-dawn hours of 2 April 2000, Mr Obuchi was hospitalised after suffering a stroke. He went into coma the next day, forcing his Cabinet to resign on 4 April. He died on 14 May without having regained consciousness.

Election of Prime Minister Yoshiro Mori

2.84 On 5 April 2000, the Diet elected Yoshiro Mori, LDP Secretary-General, as Prime Minister. The Liberal Party under Ichiro Ozawa left the governing coalition, leaving a group of eleven members within the coalition under the leadership of Ms Chikage Ogi, which formed the New Conservative Party. The Mori administration was therefore a new coalition of the LDP, New Komeito (a party backed by the mass Buddhist organisation Soka Gakkai) and the New Conservative Party.

2.85 Domestic politics was more important than international concerns in the inauguration of the Mori administration, coming as it did during a political emergency.⁵⁵ When Prime Minister Mori assumed office, Japan faced economic contraction for the third fiscal year in a row.

The 25 June 2000 elections

2.86 Senior LDP leaders appear to have calculated that calling an election relatively quickly would capitalise on Mr Obuchi's popularity and on public sympathies towards him. In 1980, the LDP had benefited greatly from a sympathy vote when Prime Minister Ohira Masayoshi had died during an election campaign. The date chosen, 25 June 2000, would have been Mr Obuchi's 63rd birthday. The 25 June elections were called against a background of disaffection among the Japanese public with the state of Japan's politics in general and with the new Mori government in particular. Since the October 1996 elections, three different prime ministers (Ryutaro Hashimoto, Keizo Obuchi and Yoshiro Mori) had presided over five administrations, mostly coalitions. Voters had been given no chance to render judgment on these changes of government.⁵⁶

2.87 The American analyst Barbara Wanner has argued that:

The frequency of these political realignments and the fact that they appeared to be driven more by the Liberal Democratic Party's desire to control the Diet than by policy related or ideological concerns have eroded public trust in politicians and the political system. Surveys indicate that about half of all eligible voters are not affiliated with a particular party. The declining turnout for national elections also has been attributed to a growing perception among

55 Kenzo Uchida, 'New leader, same policies', *The Japan Times*, 7 April 2000

56 Keizo Nabeshima, 'Defining issues for Japan', *The Japan Times*, 19 June 2000

people that their votes do not matter. Politicians will do whatever is necessary to remain in power, regardless of public sentiment, survey respondents have lamented ... Even more disturbing to voters, however, was the fact that the incessant political manoeuvring and alliance-building had not necessarily produced policies that effectively addressed Japan's still-staggering economic problems.⁵⁷

2.88 The early phase of the Mori administration did little to impress the public. Mr Mori stumbled badly on several occasions by making several politically insensitive and inflammatory comments. Some LDP candidates requested that the Prime Minister not make the customary campaign speeches in their constituency and support in opinion polls for the Prime Minister and the Government was at low levels.⁵⁸

2.89 The climate of public disaffection led some observers to predict a loss for the governing coalition. The turnout for the elections, at 62.5 per cent of eligible voters, was the second lowest in history. The LDP led tri-party alliance emerged with 271 seats, a clear majority in the 480 seat Lower House. While this was a notable result for a government thought to have been widely unpopular, it was a very qualified victory for the LDP. The Party secured 233 seats, a loss of 38. This was the biggest LDP loss of seats since 1983. The New Komeito and the New Conservative Party also lost ground, losing 11 seats each. The LDP was dependent on the New Komeito party for its majority in the Lower House, a possible factor for instability given that until 1999 the party had been a strong critic of the LDP.⁵⁹

2.90 The main opposition party, the Democratic Party of Japan, increased its seats from 95 to 127, but it still remained far behind the LDP. Analysts in Japan criticised the opposition for failing to make more of an inroad into the government. For example, the *Nihon Keizei Shimbun* criticised the opposition parties because, instead of uniting under one umbrella and presenting voters with a well-conceived policy platform, the DPJ-led opposition had concentrated on attacking Mr Mori's qualifications for office.⁶⁰ While Prime Minister Mori was not a popular figure, the DPJ's leader Yukio Hatoyama did not establish any obvious superiority in the campaign and his image was affected adversely by the fact that he faced a tough re-election battle in a single member district in Hokkaido, which he won only narrowly.

57 Barbara Wanner, 'Lower House elections Portend more Muddling through in Japan', Washington, Japan Economic Institute, 21 July 2000, p. 3

58 Barbara Wanner, 'Lower House elections Portend more Muddling through in Japan', Washington, Japan Economic Institute, 21 July 2000, p. 4

59 'Japan: Post election Portents', *Oxford Analytica Daily Brief*, 26 June 2000

60 Barbara Wanner, 'Lower House elections Portend more Muddling through in Japan', Washington, Japan Economic Institute, 21 July 2000, p. 8

2.91 A significant feature of the election results was a further illustration of a trend towards major urban–rural differences in party support. The rural community continued to provide the LDP with its strongest base of support. In urban areas, as in the 1998 Upper House elections, the LDP fared worse. In Tokyo, DPJ candidates won over half the single–member electorates, defeating the Minister for International Trade and Industry, Fukaya Takashi, in the process. Urban voters are thought to have been alienated by the extent of the public spending being directed to rural and provincial areas.⁶¹ As Hayano Toru of the *Asahi Shimbun* observed in an analysis of the elections:

In his campaign speeches, Mori focussed almost entirely on economic recovery, using public works projects as a way out. For those in big cities, such projects essentially mean nothing beyond the fact that their tax money is being squandered on roads, dams, and fancy halls in the middle of nowhere—projects that do more to enrich bureaucrats and related industries than the general public. Urban voters only needed to know that central and local governments combined were saddled with fiscal burdens totalling ¥645 trillion. They must have felt the government should be focussing on how to reduce the debts, not add to them by pouring more money into useless public works projects. Given these factors, it is small wonder that the LDP lost badly and Minshuto [DPJ] was so strong among the urban electorate.⁶²

2.92 Recent trends in urban–rural imbalances in electoral support indicated problems for the LDP. In overall assessment of the 25 June elections, Barbara Wanner observed:

Japan’s disaffected but generally well–informed and savvy electorate no doubt realise that Mr Mori does not call his own shots. LDP Secretary General Hiromu Nonaka and other senior party officials basically are using him as a seat-warmer to ensure leadership continues through the late July summit on Okinawa of the Group of Seven industrial nations plus Russia. But to a nation inherently averse to chaos and disruption, the better and safer choice was to keep Mr Mori—with his legion of experienced advisers—as prime minister rather than take a chance on Mr Hatoyama.⁶³

The Mori administration and Japanese politics

2.93 Despite the relatively poor showing by all three of the coalition parties and the evident unpopularity of Yoshiro Mori as a political leader, the LDP

61 Sonni Efron, ‘Japan’s ruling party slips but retains power’, *Los Angeles Times*, 26 June 2000

62 Hayano Toru, ‘LDP Stumbles in Obuchi’s Wake’, *Japan Quarterly*, vol. 47, no. 3, July–September 2000, p. 9

63 Ayako Doi, ‘Japanese Election Results: Missing the Big Fish’, *PacNet Newsletter*, Hawaii, Pacific CSIS, no. 26, 30 June 2000

decided to re-appoint him as Prime Minister. This was formalised by a short meeting of the Parliament in early July. Given that Japan was due to host the G-8 meeting in Okinawa in late July and that Mori had laid groundwork for the meeting by liaison visits to participating countries in late April-early May, it may have seemed to make diplomatic sense to have Mr Mori to host the meeting. It has also been suggested that the re-appointment of Mr Mori suited the older generation of leaders of the LDP, especially Hiromu Nonaka, who were anxious to retain their influence and feared that this might be lessened if another leader were to be selected, such as Koichi Kato, who would be critical of the strategy of large-scale public spending as a response to Japan's ongoing economic problems.⁶⁴

2.94 Mr Mori publicly announced his resignation on 18 April 2001, but his exit had been a foregone conclusion for some time. His failure to present a credible blueprint for the future and revive an ailing economy, coupled with a series of gaffes and scandals, had made him the most unpopular prime minister since the end of World War II. In the public mind Mori never lived down the way he replaced Keizo Obuchi as LDP president and Prime Minister as the result of a secret deal worked out by the four leaders of the largest LDP faction, the Keiseikai. Public-approval ratings of his Cabinet, which initially were around 70 percent, sank below 10 percent in the final days of his administration, the lowest figure for any prime minister since Takeshita.⁶⁵ Having lost its majority in the 25 June 2000 general election, the LDP kept power with the support of New Komeito and the New Conservative Party. The tripartite coalition, which enjoyed an absolute majority in the Lower House, created a semblance of political stability. But its heavy-handed parliamentary tactics further alienated the public. A much-touted central government shake-up in January 2001, designed to take away the policymaking initiative from the bureaucracy, proved to be largely ineffective, further accentuating Mr. Mori's failure of leadership. The embattled Mori drove himself further into a corner with his slow response to the collision of a US nuclear-powered submarine with a Japanese fisheries training vessel off Hawaii in February 2001.

2.95 It was in the realm of policy, however, that Mr. Mori failed most conspicuously. He took the helm at a difficult time for the nation, yet he demonstrated little leadership in shaping policy, leaving almost everything to party executives. He did talk of the 'rebirth of Japan', but his attempt at economic recovery—which relied heavily on public spending—fell through. Stock prices plunged, and the economy slipped back into recession. The Mori administration also failed to produce reform blueprints in other key areas, such as the deficit-ridden government budget and the social-security system. A low point was reached when Finance Minister (and former Prime Minister) Kiichi

64 Barbara Wanner, 'Lower House elections Portend more Muddling through in Japan', Washington, Japan Economic Institute, 21 July 2000, p. 10

65 Minoru Tada, 'Calls for change heeded', *The Japan Times*, 27 April 2001

Miyazawa publicly declared on 9 March 2001 that Japan's fiscal system was 'close to collapse' (*hasan ni chikai*).⁶⁶ The government debt had exceeded 130 per cent of gross domestic product, and the stock market had fallen to a sixteen-year low, to a level where the viability of banks was threatened.

2.96 Mr. Mori took a more active role in diplomacy, particularly in trying to settle the territorial dispute with Russia over the southern Kurils, and to normalise relations with North Korea, but was unable to achieve anything substantial on either front.⁶⁷

Election of Prime Minister Junichiro Koizumi

2.97 On 24 April 2001, Junichiro Koizumi was elected president of the ruling Liberal Democratic Party, and on 26 April the Diet elected him Prime Minister. His victory marked the first time that the LDP had elected a president without the backing of the party's largest faction. The Keiseikai, led by Ryutaro Hashimoto and Hiromu Nonaka, had controlled party politics since Kakuei Tanaka was Prime Minister in the early 1970s. Former Prime Minister Ryutaro Hashimoto had been the favourite to win at the start of the contest. Yet Mr. Koizumi caught up with and passed Mr. Hashimoto during preliminary polling, when the votes of local LDP chapter members were counted. In those preliminary ballots, Mr. Koizumi won 123 votes out of a total of 141. This upset determined the outcome of the decisive final voting by 346 LDP Diet members held on 24 April. In that ballot, Koizumi obtained 175 votes, which, when combined with his overwhelming majority in the primaries, gave him the party presidency. The fact that a preliminary election was even held was the most crucial factor in Koizumi's victory over Hashimoto. The 'winner-takes-all' principle was adopted in the preliminary voting, which turned out to be a kind of popularity vote. In such a contest, Koizumi, who had attracted enormous popularity beyond the party, received overwhelming support from rank-and-file party members. The 'winner takes all' rule let Koizumi sweep preliminary votes even in regions that were thought to be Hashimoto's power bases. Koizumi's strong performance in the local voting virtually made the subsequent election by LDP Diet members a mere formality. It apparently created an atmosphere in which attempts to turn the tables in a final vote by LDP Diet members would have been seen as moves to thwart the popular will. Hiromu Nonaka quit both party and factional posts to take the blame for Hashimoto's defeat.⁶⁸

2.98 Mr Koizumi was elected to head the ruling party with promises of real reform. But to succeed, he had to balance a popular desire for change and the

66 'Japan faces "catastrophic" fiscal scenario', *The Japan Times*, 9 March 2001

67 'Mr. Mori's year in review', *The Japan Times*, 18 April 2001

68 'A bold new start for the LDP', *The Japan Times*, 26 April 2001

more conservative members within his own party. In announcing his candidature for the LDP presidency in early April 2001, Koizumi stood down from his position as leader of the party's second largest faction, in which he had succeeded Yoshiro Mori. He declared he wanted to do away with the factions. His call for radical reform of the party was expected to win greater favour among the rank-and-file than with the conservative leaders of the LDP. But no one forecast that he would gain 87 per cent of the votes cast by prefectural chapters of the LDP, which for the first time were granted a say in the election of the party's president.

2.99 Mr Koizumi took control at a time of unprecedented economic problems. He pledged to push through reforms that would be painful, especially in the countryside. His vow to cap the issuance of government bonds at 30 trillion yen (\$US245 billion) a year will squeeze the public works spending that had been the lifeblood of many construction companies. The construction industry accounts for about ten per cent of all jobs in Japan and bankruptcies would mean large numbers of lay-offs. He also planned to move ahead with deregulation of the economy, a policy that would be likely to lead to greater competition and hurt thousands of small shops that have benefited from government protection and, in return, have been faithful supporters of the LDP. 'If we do the reforms that are needed, and the economy contracts, that's just too bad', Koizumi said in a press conference shortly after the party election. 'But if we are prepared to accept that, then as a result there won't be minus growth.'

2.100 Before Koizumi can implement any of his proposals, he will have to gain the support of LDP Diet members. Compared with his showing in the prefectures, Koizumi won only 35 more votes from Diet members than his chief rival. Throughout the campaign, Koizumi was almost constantly at odds with Hashimoto and the other two candidates. His core pledges—breaking up the party's traditional faction-based structure, limiting government spending and privatising the vast postal savings system—strike at the heart of the LDP power structure and, if implemented, would undermine its traditional support base.⁶⁹

2.101 Dean of American journalists in Japan, Sam Jameson, has written that the unexpected success of Junichiro Koizumi in becoming leader of the LDP and Prime Minister could in fact sabotage hopes for periodic changes in government. Political analysts and opposition leaders had for years been predicting that a grand realignment of politicians would create a new force capable of heading the government and giving Japan a two-party political structure. The spark for such an upheaval would be another rebellion in the LDP similar to 1993 when a party split drove it out of power for ten months. Koizumi's victory, however, has eliminated the possibility of a realignment, at least for the foreseeable future. The LDP's most disgruntled politicians—the

69 David Kruger, 'Change the LDP! Change Japan!', *Far Eastern Economic Review*, 3 May 2001

ones who were most likely to leave the LDP—are now running the party. Now it is the opposition, not the LDP, which must worry about defectors. Two members of a factional offshoot of the Democratic Party broke ranks and cast their ballots for Koizumi in the Lower House election of the Prime Minister. Koizumi and the rebels he brought into his government may fall short of expectations or be undercut by renewed factional strife in the LDP. But they are not likely to leave the party.⁷⁰

2.102 An abortive no confidence motion in the Diet launched by Koichi Kato against Prime Minister Yoshiro Mori in November 2000 underscored how important LDP rebels consider their party membership to be. Even while threatening to vote with the opposition in favour of a no-confidence motion against the Prime Minister, Kato insisted neither he nor his rebels would leave the LDP. And when he withdrew his threat, Kato expressed the fear of expulsion from the party as ‘a price too dear to pay’. ‘LDP politics is Japanese politics’, Kato said, and ‘without changing politics, Japan cannot change’. Koizumi made the same point when seeking election as party president by calling for reforming the LDP to reform Japan. Reformers like Nobuteru Ishihara, who joined Koizumi’s cabinet, always rejected any thought of leaving the party even as they bitterly complained about its corruption, its back room decision making, and its seniority appointments. Makiko Tanaka, the daughter of former Prime Minister Kakuei Tanaka, in 1998 characterised an LDP election for party president as a ‘garage sale’ pitting against each other ‘a military man, an ordinary man, and a strange man’, (referring, respectively, to the Seiroku Kajiyama, Keizo Obuchi, and Koizumi), but she never threatened to leave the party. She, too, joined the cabinet, serving as Foreign Minister under the man she called ‘strange’.

2.103 LDP rebels have no place to flee. The new major opposition party led by Yukio Hatoyama, himself a fugitive from the Liberal Democratic Party (of which his grandfather was one of the founders), has been called a ‘refugee camp’. It is full of politicians who left other political parties to seek refuge under its broad catch-all anti-LDP approach. But, not only has it failed to unify itself behind clear policies, it also lacks anything that resembles the nationwide organisation of the Liberal Democratic Party and the ‘supporters associations’ (*kōenkai*) of its individual members of parliament. Most of all it lacks what glues the factions of the Liberal Democratic Party together: power.

2.104 The selection of Koizumi reaffirmed the ruling party’s flexibility, although cynics might call it lack of principle. Every time threats to its control of government have emerged in the past, the LDP has taken radical action to deal with the challenge. In 1974, when Kakuei Tanaka was forced out of office by charges of illicit political wheeling-and-dealing, Etsusaburo Shiina, the

70 Sam Jameson, ‘Koizumi’s Victory: An end to hopes of change?’, *The Japan Times*, 2 May 2001; *JPRI Critique*, vol. 8, no. 5, June 2001

LDP's 'shadow shogun' of the day, selected Takeo Miki, the leader of a minor faction, to give the party a 'clean' face. In 1989, after losing their majority in an Upper House election, the Liberal Democrats plucked Toshiki Kaifu—another powerless 'Mr Clean'—out of obscurity to give the party an aura of reform. In 1994, the LDP even turned to the Socialist Party and put its chairman, Tomiichi Murayama, in the Prime Minister's seat.

2.105 Koizumi's support ratings of between 80 and 90 per cent, recall similar flashes in the past, such as when Yohei Kono left the LDP in 1976 and set up his New Liberal Club, or when Morihiro Hosokawa became Prime Minister in 1993 only a year and a half after founding a new political party. Like Kono and Hosokawa, Koizumi could easily turn out to be a flash in the pan if he fails to live up to expectations. But with the LDP still controlling the Lower House of Parliament, only a change in voting behaviour greater than has been displayed by the electorate until now could force a political realignment.

2.106 There are two main threats to Koizumi's power. The first is the group of Diet members in the LDP faction led by Ryutaro Hashimoto. Of the 64 successful LDP candidates in the 29 July 2001 Upper House election, 23 were affiliated with Hashimoto's faction. The Hashimoto faction is the largest in the LDP and many of its members rely on the party's traditional rural power base—farmers, construction companies and small businesses. The battle between Foreign Minister Makiko Tanaka and her bureaucrats, who have ties to the Hashimoto faction, is an indication of the tactics which may be used to bring down Prime Minister Koizumi.

2.107 The second threat comes from the bureaucracy. Although battered by scandal and distrusted by many in the public, the bureaucrats remain a key component of smooth government and play a crucial role in policy implementation. For years, ministers have moved in and out of posts in rapid succession, leaving policy decisions and direction in the hands of top civil servants, many of whom appear reluctant to accept any change that would reduce their influence.

2.108 As Mr Koizumi battles to stay in power long enough to put his reform agenda into action, his main weapon is his popularity. Opponents in the LDP cannot deny Koizumi's connection with the public and cannot deny him credit for bringing victory in the 29 July 2001 election.

2.109 At the base of Koizumi's reform blueprint is his pledge to cut new issuance of government debt to 30 trillion yen (\$US250 billion) in the year starting on 1 April 2002. Estimated new issuance for the current fiscal year is 33 trillion yen. No firm decisions have been made public, but Koizumi has promised to review public works projects, government funding of public corporations, central government tax transfers to local governments and the use of special-purpose road taxes. This will be difficult, as spending allocation on roads, housing, flood and landslide control, and sewers has only varied by a

few percentage points between 1980 and 2000, according to Public Works Ministry statistics.⁷¹ There are also plans to move forward on the privatisation of the postal savings network and to review the possible consolidation or privatisation of other government corporations. Funding for such corporations will top 5 trillion yen in 2001.

2.110 Two of the most controversial issues are the possibility of a deep cut in public works spending and a change in the way road taxes are used. Many rural communities, and the LDP politicians that represent them, survive in large part on work related to government projects. Finance Minister Masajuro Shiokawa told parliament in early June that the government wants to cut public works spending in half in about 10 years, adding that the money might be better used to fund social welfare programs. A more immediate shock could come from changes in the allocation of car and fuel taxes. The taxes, which amounted to more than 5.5 trillion yen in the year to 31 March 2000, are currently used only for road construction, mostly in rural areas. Koizumi has said the money raised through the taxes should also be available for urban redevelopment projects.

2.111 The pain of any reform measures will be compounded by the already floundering economy. The government said on 11 June that GDP contracted 0.2 per cent in the January–March quarter and rose 0.9 per cent in the year to 31 March, falling well short of the government’s growth forecast of 1.2 per cent. The Nikkei stock market index again recorded sixteen-year lows of below 12,000 in early August 2000.⁷²

2.112 Koizumi has made it clear that the changes he is proposing will cause real pain. He plans to offset this hardship to some extent with programs aimed at strengthening the public safety net and creating five million jobs in five years. So far, big business is on his side. Takashi Imai, chairman of the country’s main business lobby, the Federation of Economic Organizations, or Keidanren, said after the weak GDP figures were announced that the government must push on with structural reform. ‘This process will be accompanied by pain and could take more than two or three years’, he said, ‘but without it Japan cannot revive’.

2.113 Koizumi’s future depends on his ability to continue convincing the public that his vision for Japan and his strategy to achieve it are worth the trouble. Despite his soaring approval rating, any sign of weakness could be costly, says Takashi Inoguchi, a professor of political science at the University of Tokyo: ‘Unless the prime minister’s leadership is exercised very tenaciously

71 ‘Japan coalition parties OK extra diet session this month’, *Nikkei/Dow Jones*, 1 August 2001

72 The head of the Financial Services Agency, Hakuo Yanagisawa said in a speech to Britain’s Financial Services Authority in London on 3 September 2001 that even if the Nikkei Stock Average plunged to around 10,400, down 20 per cent compared with its March 31 close, the fall in Japanese banks’ capital adequacy ratio would be limited to 0.5 percentage point. (‘No Need for Concern About Japan Banks: Yanagisawa’, *Nikkei/Asia Pulse*, 4 September 2001)

and vigorously and enjoys overwhelming public support, I think basically the predominant faction—related power—bureaucratic, business as well as parliamentarian—will prevail in the near future’.⁷³

2.114 The Koizumi administration must grapple with the problems of deregulation and administrative reform, and divisions in the business sector, two areas that are generating significant pressures for change which will have implications both for the immediate future of the government and for the future of Japanese politics overall.

Deregulation and administrative reform

2.115 A centrally important area of ongoing debate in Japan is that of ‘administrative reform’, a term which refers to a series of proposals to revitalise, deregulate and streamline important areas of the Japanese economy. Since the collapse of the Bubble Economy in 1991, Japan in the 1990s and into the new century has faced a period of growing uncertainty about many of the basic values of the country’s economic management. Attention has in addition been focussed in Japan on a series of instances of poor performance and of scandals in the bureaucracy. An instance of poor performance was the response by the government led by Tomiichi Murayama and the bureaucracy to the Kobe earthquake in January 1995—Japan’s worst natural disaster since World War II—was seen widely to have been ineffective and inadequate. An instance of a scandal was the cover-up by the Ministry of Health of failures to ensure the provision of safe blood supplies to haemophiliacs, which resulted in the spread of AIDS to 2,000 out of the estimated 5,000 haemophiliacs in Japan. There have also been frequent allegations of corrupt practices at the regional and local levels.⁷⁴ These developments brought into widespread question the powerful position which key areas of Japan’s bureaucracy had in directing and managing the economy.

2.116 Structural reforms have been advocated since at least the mid 1980s, with a major study (the Maekawa Report) prepared in 1986. Some steps were taken towards deregulation and market opening in the early 1990s, particularly because of external pressure: for example, there was a partial opening of the rice market in 1993. However, these limited reforms left the basic structure of economic management intact. In the wake of the period of economic stagnation in the 1990s, many Japanese leaders in politics (in both government and opposition parties) and in business have argued that Japan needs to review and reform long established economic practices. It has been argued that Japan needs to reduce the pattern of extensive regulation of markets and foster more

73 David Kruger, ‘The Heavy Cost Of Winning Big’, *Far Eastern Economic Review*, 21 June 2001

74 Haruhiro Fukui and Shigeko N Fukui, ‘Japan in 1996: Between Hope and Uncertainty’, *Asian Survey*, January 1997, p. 22

flexible arrangements in the way business operates if the economy is to again secure satisfactory rates of growth.

2.117 Japan has traditionally been regarded as a highly regulated society characterised by ‘bureaucratic intervention in all facets of corporate and consumer activity’. Highly regulated industries belong to Japan’s ‘second’ or ‘low-productivity’ sector, which absorbs the larger part of Japan’s workforce and which contrasts strongly with Japan’s high-productivity ‘first’ sector dominated by the large manufacturing firms in export industries. Concepts of security, safety and stability etc. provide the basic rationalisation for regulating markets and preserving bureaucratic oversight and controls over these markets. Regulation encourages collusion between bureaucratic regulators and protected industries by institutionalising their common interests. Some of the private sector profits from regulated industries end up in the hands of the politicians whose support in the Diet is required to keep the system unassailed by legal amendment in a liberalising direction. A political-bureaucratic-vested interest triangle thus lies at the heart of all Japanese regulatory systems. In contrast, the system does not reward those who pay the administratively sanctioned profit margins: usually retailers and consumers.

2.118 Spurred by the collapse of the speculative bubble of the 1980s and the prolonged recession in the 1990s, the view has emerged that government regulations are excessive and are inhibiting Japan’s recovery from recession. Those advocating deregulation include academic economists, Japanese consumer organisations, elements of the political leadership including Japan’s ‘new parties’, the powerful media voice representing public opinion, citizens groups and certain sections of Japanese industry. Deregulation also receives some support from agencies attached to the Prime Minister’s Office.

2.119 Deregulatory reform has generally been piecemeal in spite of the fanfare that greeted the Hashimoto government’s ‘Big Bang’ financial system deregulation. The Hashimoto government did not push for dramatic or radical reform because of entrenched resistance from the bureaucracy and from other groups with vested interests in regulatory regimes. Nevertheless, the momentum of deregulation has been maintained because of Japan’s deep recession and because of increasing pressure from abroad for more radical change.

2.120 Every Japanese Prime Minister since Hosokawa Morihiro in 1993 has reiterated the call for deregulation. To date, however, reform has not been rapid or dramatic. It has been advanced in a series of ‘packages’ aimed at loosening administrative controls in small, incremental steps. While in some sectors the fruits of deregulation can already be seen such as in telecommunications (mobile phones), retailing (the establishment of increasing numbers of larger stores and supermarkets), the power industry (electricity generation), the petroleum industry (gas retailing) and the housing construction industry, assessments of progress in Japan’s deregulation have yielded mixed results.

The white paper of the Management and Coordination Agency of the Prime Minister's Office submitted to the Cabinet in July 1996 noted that deregulation was having a 'positive effect in several business areas', although in another report, the Agency noted that government ministries were 'reluctant to respond to requests for deregulation from the private sector'.⁷⁵ It also said that of the 655 requests for deregulation made to ministries in fiscal 1995, measures were taken in response to only 119, while 54 would be pursued further.⁷⁶

2.121 Dr Aurelia George Mulgan observed that it remained to be seen just how far deregulation would proceed in the years ahead. She cited an editorial writer in *The Japan Times* of 26 July 1995, who said it was clear that it was 'easier said than done'.⁷⁷ Deregulation risked being side-tracked into the issue of administrative reform, with an emphasis on reducing the size of the bureaucracy and restructuring government agencies. Cutting back the size of government, however, would not automatically result in a reduction in administrative rules and regulations or translate into a decline in ministerial power.⁷⁸ The number of administrative officials, for example, has no direct impact on the power of ministries and their bureaus, which, in formal terms, derives from public law, administrative rule-making (such as the passage of ministerial ordinances, regulations and enforcement ordinances), acts of 'administrative disposition' and the use of informal instruments such as 'administrative guidance' (*gyōsei shido*).

2.122 'Reforming the administrators' as a substitute for the relaxation and abolition of regulatory controls is popular amongst politicians because it gives vent to the rising popular inclination for 'bureaucracy bashing'. The main contribution of this notion to the deregulation process, however, is to create a climate in which reductions in bureaucratic power become central to public expectations, which strengthens the hand of political leaders in tackling entrenched administrative procedures.

2.123 The prospect of more initiative and responsibility for deregulation policy being assumed by the politicians is also dependent on fundamental structural change taking place within the political system itself. It is possible that electoral reform may engender the necessary conditions for such a change. Both the post-1994 single member divisions and the regional proportional representation districts in theory encourage a more distinct, party-based policy

75 *Nikkei Weekly*, 15 July 1996

76 *Nikkei Weekly*, 15 July 1996

77 Dr Aurelia George Mulgan, submission no. 20, p. 30

78 Without some reduction in the power of Government agencies, any integration and restructuring really represents merely a reshuffling of arrangements and combinations. Genuine administration reform can be achieved only when agencies are scaled down, when power and financial resources are given to municipalities and when subsidies are drastically reduced. (Editorial in the *Nikkei Weekly*, 16 September 1996)

choice for voters. This may give rise to a more urban–focussed, non–materialist politics, where policy questions such as deregulation, administrative reform, the environment, and other ‘quality of life’ issues rather than particularistic benefits will form the basis of voter choice. All parties will have to accommodate this new type of ‘citizen politics’ to a greater or lesser degree.

2.124 Deregulation will advance more rapidly in some sectors rather than in others. The reforms most likely to proceed at a faster pace will be those where there is a clear political gain to be made (such as administrative reform which pits the politicians against the bureaucrats) and those that will contribute most to Japan's economic recovery and its international economic and financial competitiveness. For example, in the wake of the October 1996 election, the Hashimoto administration announced the sweeping deregulation of Japan's financial system by 2001, known as the ‘Big Bang’. It entailed further liberalisation and internationalisation of Japan's credit and capital markets in an attempt to increase competition among domestic banks, domestic securities firms and overseas financial firms. In March 1997, the advisory committee attached to the Office of the Trade and Investment Ombudsman proposed nineteen deregulation measures to provide improved access to Japanese markets. Many of these recommendations originated in complaints from foreign embassies and chambers of commerce in Japan.⁷⁹ In April 1997, the Conference on Administrative Reform (established by Prime Minister Hashimoto in December 1996), recommended that government ministries and agencies hand the power to supervise private companies and grant licenses to businesses over to independent agencies.⁸⁰ Despite these examples, reforms will be slower in non–traded areas such as in agriculture and construction where tight triangles of politicians, bureaucrats and supporting groups will continue to resist changes that threaten their vested interests.

2.125 Deregulation panels under various ministries or other government offices continue to put out reform proposals.⁸¹ Whether the discussions and resulting proposals will actually produce reforms that reflect the input being made remains to be seen. The Hashimoto Government did not push for a dramatic or radical deregulation program because of its close links to the bureaucracy, the continuing resistance from the beneficiaries of regulatory systems and Hashimoto's own record as a ‘public administration pro, conversant with the intricacies of the bureaucracy...[which]-makes it hard for him to undertake bold reform’.⁸² Hashimoto still heads the largest faction in the LDP in the Government led by Prime Minister Koizumi. The momentum of

79 *Nikkei Weekly*, 24 March 1997

80 *Nikkei Weekly*, 14 April 1997

81 *Nikkei Weekly*, 16 December 1996

82 Kitaoka Shinichi, ‘The Changing Dynamics of Party Politics’, *Japan Echo*, vol. 24, no. 1, Spring 1997, p. 16

deregulation is nevertheless likely to be maintained and even accelerated, particularly as a result of foreign demands for Japan to engage in more urgent economic reform to head-off a serious recession, although to date the process has been long on rhetoric and short on delivery.

Blockages to reform

2.126 The push for deregulation has mainly come from the government executive—in particular, the successive Prime Ministers Hashimoto, Obuchi, Mori and Koizumi—but the government executive in Japan is weak vis-à-vis the bureaucracy and special interest politicians and policy cliques within the ruling LDP.⁸³

2.127 One of the ways in which the government executive can try and short-circuit the bureaucracy and special interests is to set up advisory councils which report directly to the Prime Minister. Proposals for deregulation have emanated as recommendations from these councils in recent years. The test, however, is in the actual implementation of the promised reforms. Although these councils comprise well known leaders from industry, from academia and other opinion leaders and professionals, the councils themselves do not exercise sufficient power and authority to ensure that their recommendations are implemented. Another way to short-circuit vested interests is to try to harness what the Japanese call *gaiatsu*, or foreign pressure, of which the US–Japan Enhanced Initiative on Deregulation launched in June 1997 was an example. It contained some of the measures recommended by the Prime Minister’s Committee on Deregulation.

2.128 Any process in which the bureaucracy itself is in charge of the deregulation process, and in which the emphasis is on producing long lists of individual items which are slated for some action or reform, is guaranteed to be weak. Furthermore, at the same time as the government has moved ahead with deregulation, it has also continued to implement new laws, perpetuating the regulatory tradition.⁸⁴ Administrative reform, which is an adjunct to deregulation, should have produced a smaller government consistent with the notion of less government involvement in the economy but, as Dr Aurelia George Mulgan said, ‘it has only resulted in a plan to reshuffle ministries, with little or no net reduction in personnel or elimination of function’.⁸⁵ She explained:

Why is deregulation so hard to implement? Firstly, regulation is not only supported by strong legal foundations which give bureaucrats

83 Dr Aurelia George Mulgan, *Committee Hansard*, 28 May 1999, p. 673

84 Cf. Steven K. Vogel, *Freer markets, more rules: regulatory reform in advanced industrial countries*, Ithaca [N.Y.], Cornell University Press, 1996; cited by Dr Aurelia George Mulgan, *Committee Hansard*, 28 May 1999, p. 674

85 Dr Aurelia George Mulgan, *Committee Hansard*, 28 May 1999, p. 674

vast discretionary powers but also highly institutionalised in the profusion of quasi-governmental entities which form what one journalist called 'a vague miasma surrounding the great mass of central government'. These semi-government organisations are integral to the regulatory framework. The Japanese call them *gaikaku dantai*, which means government affiliated groups. They are public corporations, incorporated associations, incorporated foundations, associations of various sorts. Regulation is also institutionalised in corporatised interest groups such as Nokyo...

The second reason why deregulation is hard to implement is that regulatory authority is a source of bureaucratic power—the power to licence, register, designate, approve, permit, inspect, test, certify, examine, et cetera, and the power to subsidise really weak industries like agriculture.

Thirdly, bureaucrats gain personal advantage from regulatory regimes—golden parachutes into cushy jobs on the boards of corporations after retirement and into equally lucrative executive positions in semi-governmental bodies... In these positions, retired officials earn amounts that exceed the basic salary of the administrative vice-minister of the former ministry—in other words, the secretary of the department—they earn a lot more than they ever did in government service, plus they get a handsome severance package at the end of their term of service in the organisation, and they can have a succession of these... Deregulation and administrative reform may mean having to disestablish many of these semi-governmental bodies. Some of them have done so. This represents not only a loss of post-retirement jobs for ministry bureaucrats but also lots of ministry subsidies because it is the subsidies that keep these organisations going. The organisations themselves have a vested interest in the regulatory process of which they are an integral part. Bureaucrats also receive other perks such as wining and dining, down to direct monetary and other kinds of favours. There is a lot of bribery and there is collusion between the bureaucratic regulators and the regulated industries... It is called structural corruption because it is actually part of the institutional process in Japan relating to regulation, implementation and administration of regulatory rules.⁸⁶

The LDP and divisions in the business sector

2.129 A major challenge for the LDP stems from divisions in interest among one of its traditional constituencies, business. Japan's decade-long stagnation and the pressures of the global economy have exacerbated differences of interest among key sectors of business such as contractors, 'old economy' manufacturers, the small business sector (such as family shops), and the

86 Dr Aurelia George Mulgan, *Committee Hansard*, 28 May 1999, pp. 674–5

technology-oriented firms of the 'new economy'. It is now no longer easy for the LDP to meet the needs of business with one set of policies. In commenting on the internal divisions within the LDP, Barbara Wanner has pointed to some of the key problems involved:

If the proponents of change gain the upper hand the LDP will splinter, but the party will also fall apart if the keepers of the status quo prevail. Either way, huge blocks of voters and campaign contributors will be alienated. That is why the LDP often appears confused and without direction in the deregulation/restructuring debate and seems capable of only incremental changes. In short, the LDP is being pulled in opposite directions.⁸⁷

2.130 The LDP-led government has continued to try to soften the impact of competitive pressures on Japanese business. The Obuchi government, for example, extended the deadline for ending unlimited bank deposit protection, thus reducing the pressure on weaker and smaller banks of losing business, collapsing or being forced to merge. The government has also resisted pressures to take steps that would assist the 'new economy' sectors, especially in relation to the dominant position of Nippon Telegraph and Telephone Corporation. As a result, Internet charges in Japan are substantially above those in the US.

2.131 While pleasing some business sectors, these policies alienated others and fostered competing camps within the LDP itself. In November 1999, a number of LDP legislators formed a group called the Committee to Reconsider Deregulation, to combat deregulation initiatives that would hurt their support base. By March 2000, the group had attracted about 165 members, just under half the LDP's total membership in the Diet. The group's members were all concerned that deregulation would hurt small business, a traditional bulwark of the LDP. The group's members were responding particularly to complaints from small retailers about increased competition from supermarkets and discount stores. This group has been able to soften the impact of measures that would have affected the interests of small retailers, taxis and the medical industry.⁸⁸ Dr Aurelia George Mulgan explained:

Business also likes regulation. A large number of uncompetitive firms like regulation because it shields them from international competition and, in many cases, domestic competition. The ruling Liberal Democratic Party politicians gain votes and political funding

87 Dr Aurelia George Mulgan, 'Japan: A Setting Sun?', in *Foreign Affairs*, vol. 79, no. 4, July/August 2000, p. 12

88 Dr Aurelia George Mulgan, 'Japan: A Setting Sun?', in *Foreign Affairs*, vol. 79, no. 4, July/August 2000, p. 42, and Wanner, *op cit*, pp. 11–12

from regulated industries in exchange for acting as brokers on their behalf with regulators; in other words, the bureaucrats.⁸⁹

2.132 Dr Aurelia George Mulgan also pointed to problems at a philosophical level. She said the government fundamentally mistrusts competition. It is not prepared to put its faith in the free market. It is worried that a true market economy may result in the law of the jungle. Public servants also operate under the rubric that bureaucrats know best. They disdain market forces and have more faith in themselves than in markets. Japan also wants to keep the safety net to protect people's lives. It is a question of getting the right balance between encouraging free market competition through deregulation and improving social conditions by minimising the impact of too much competition, and changing some deeply held convictions, such as that agriculture needs protecting.

2.133 Other elements in the LDP oppose the traditional policies of industry support and deficit spending. Two weeks after the June 2000 elections, 42 younger members formed the Group to Create the LDP of Tomorrow. Members of the group objected to Mr Mori's leadership and criticised Mori and Hiromu Nonaka for relying on seniority and factional strength in the selection of the new cabinet. They also argued that the LDP would not survive if it continued with its traditional policies.⁹⁰ Prime Minister Koizumi has nailed his colours to the reform mast. At a press conference following the 21–23 July 2001 G–8 summit in Genoa, he said:

We're going to reform public organizations and the government sector because we are asking the private sector to retrench and restructure. We'll push ahead with privatization and deregulation in areas where these things have been impossible because of the power relationships between political parties.⁹¹

Conclusion

2.134 The LDP's loss of Government in 1993 and the introduction of new electoral laws for the Lower House in 1994 are regarded as political watersheds in the post-war era. The LDP's severe defeat in an Upper House election on 12 July 1998 marked another one. Popular sentiment against the LDP was high, and led eventually to the revolt of the LDP membership which brought Junichiro Koizumi to the Prime Ministership. A rejuvenated opposition, including in the form of new political parties, is keen to take advantage of recent developments and bring an end to the LDP's domination of post-war

89 Dr Aurelia George Mulgan, *Committee Hansard*, 28 May 1999, pp. 674–5

90 'New LDP group slams failure to fight corruption', *The Japan Times*, 7 July 2000

91 Keizo Nabeshima, 'Budget test for sacred cows', *The Japan Times*, 27 July 2001

politics. Whether the opposition is able to unite and translate current voter dissatisfaction into further defeats for the LDP remains to be seen.

2.135 In the 1998 and 2000 elections, Japan may have moved closer to a multi-party political system more akin to those operating in Western democracies. Since the introduction of the 1994 electoral laws, and particularly following the outcome of the 1998 Upper House election, there have been indications that Diet members need to be more responsive to the views of their electorates. This may serve to weaken the power of the factions in the LDP, although it is likely they will retain an important role in the election of party officials, as was the case in the election of Mr Obuchi and Mr Mori as LDP party presidents. Commentator and former British ambassador to Japan, Hugh Cortazzi has said:

The basic problem in Japan remains that, in order to get elected, a candidate needs a lot of money and this means joining a faction with access to substantial funds. Such funds can only come from groups who naturally expect a return for their contributions in the form of appropriate legislation or construction projects that benefit specific areas.⁹²

2.136 Because the Japanese electorate is predominantly conservative, the longer-term outlook for Japanese politics would appear to be for a return to a single large conservative party (such as the LDP), a temporary alliance of conservative parties, or the emergence of two fairly large conservative parties, one strongly conservative and the other reform conservative. Until a clear trend emerges, policy making and implementation will reflect the fluidity of the political situation and uncertainties in the administrative system.

2.137 Japan is now in an era of multi-party politics. But most of the current parties are weak, held together more by the strength of the personality of their leaders than by a common ideology. At the very least, however, the current leading opposition parties, such as the Democratic Party, are far more credible than the Socialists, which previously made up the opposition to the LDP and thus made any alternative to the LDP seem unthinkable. Japan is far from seeing the emergence of a two-party system.⁹³ But while the country is still in a state of flux, political parties are increasingly likely to be based on issues rather than personalities. The trend toward a more healthy political party system has been set, though it may take a few more elections for Japan to get there.⁹⁴

92 Hugh Cortazzi, 'Time for Japan to root out corruption', *The Japan Times*, 24 January 2001

93 Albert L. Seligmann, 'Japan's New Electoral System: Has Anything Changed?', *Asian Survey*, vol. XXXVII, no. 5, May 1997, pp. 410–11

94 Frank Ching, 'How Long Can Mori Last?', *Far Eastern Economic Review*, November 9, 2000

2.138 In October 1998, Dr Peter Brain, Executive Director of the National Institute of Economic and Industry Research, was asked to comment on the prospects for reform in Japan. He said:

It's up to, as was said, the political will of the Japanese Government. And there one must be fairly pessimistic. The problem there is that Japan, being a corporate estate, there's very strong links between the Government, business and the bureaucracy. Many of the people who are going to be hurt in this clean-up exercise are very close to the current political regime.

2.139 Commenting on the implications for Australia of (the then) two years of recession in Japan and a lack of major structural reform, he said:

What's going to happen is a grind-down as that current account deficit widens, the negative expectations of growth start affecting the confidence here or increasing the degree of unconfidence, and as mining projects start getting cancelled and so on, that will grind down growth to zero by the Olympics period, and after that a long period, maybe 18 months to two years of stagnation, while we wait for Asia to recover.⁹⁵

95 'Economist is pessimistic about the pace of reform in Japan', *7.30 Report*, 13 October 1998

