

## Chapter 1

# THE JAPAN THAT NEVER WAS

*Thanks to MITI, Japan came to possess more knowledge and more practical experience of how to phase out old industries and phase in new ones than any other nation in the world.*

—Chalmers Johnson (1982)

*Japan has complacently continued to protect its structurally corrupt and gangster ridden companies and has made only gestures toward holding anyone responsible.*

—Chalmers Johnson (1998)

*All of Japan's domestic policies serve the goal of building its industrial strength.*

—Clyde Prestowitz (1988)

*The arteries of Japan's economy are presently so clogged that all the standard stimulus measures have little effect except in massive doses that tend to further distort the economy . . . Unfortunately, there is no sign that Japan's leaders are preparing to grapple with this problem or even that they recognize its nature.*

—Clyde Prestowitz (1998)

**A**s the postwar period progressed, the political-economic system of Japan received an increasing amount of scholarly attention from both Japan specialists and nonspecialists alike.<sup>1</sup> Initially, the motivation behind this growing intellectual attractiveness was the desire to explain Japan's postwar success, that is, its remarkably high levels of economic growth combined with perhaps the most stable and productive politics in the democratic world. Japan's importance as an object of scholarly investigation has not diminished in recent years, but the issues that have drawn scholars to this interesting and important country have changed utterly. This is because the decade of the 1990s has been witness to many troubles in Japan. Indeed, it was in this decade that the nation, which once served as an economic model for many of the world's developing nations, produced year after year of little or no economic growth with small hope of the future being any different. It

was also in this decade that Japan's political system, which many said was able to design and implement enlightened economic policies and avoid the parochial focus normally associated with democratic politics, collapsed under the weight of its own corruption and ineffectiveness. As a result, recent scholarly treatments of Japan have revolved around attempts to reconcile what appear to be very different countries.

Such efforts are in no way uniform and can be distinguished, among other things, in terms of the principal concepts and methods employed by investigators as well as the level of analysis that scholars have targeted as the principal cause of Japan's problems in the last decade.<sup>2</sup> Despite such differences, most attempts to reconcile Japan's past success with its current troubles are similar in that they proceed from the idea that it is the same political-economic arrangements that once brought the country high levels of economic growth and enviable amounts political stability that are now at the heart of its problems. Along these lines, some scholars argued that Japan's political-economic system "soured" while others asserted that "key Japanese political and economic institutions that were once crucibles of creative adjustment now inhibited flexibility, dynamism, and movement in new directions."<sup>3</sup>

When scholars refer to political-economic arrangements that brought Japan high growth and political stability throughout most of the postwar period, they are pointing to a wide variety of institutional features that are said to be specific to Japan. Perhaps the most important of these institutional features is Japan's "elite" and "powerful" bureaucracy. This is because, as many have argued, it was members of Japan's economic ministries who designed and implemented that country's industrial policy and helped see to it that resources were allocated to strategic industrial sectors, which arguably would not have grown as fast as they did without such direction and assistance. Other oft-cited political-economic arrangements involve those that were designed into the structure of Japan's business-government relations. Most important among these are Japan's bank-centered system of corporate finance, implemented through financial *keiretsu* and various forms of government guidance, and its system of labor relations characterized by enterprise unionism (labor peace), lifetime employment, and seniority-based promotions.

To be sure, the Japanese political-economic system is characterized by institutions and practices that are in many ways specific to Japan, and, as a result, current attempts to reconcile that country's past success with its ongoing problems are not incorrect in how they described it in its economic and political life.<sup>4</sup> Nonetheless, scholarship that attempts to reconcile Japan's past success with its current problems is lacking in our view and, thus, reflective of an intellectual problem that needs to be addressed. The intellectual problem we refer to here involves not simply how we can explain Japan's political and

economic troubles in the 1990s and beyond but, rather, whether or not we can say that, in attempting to come to terms with Japan's current crisis, we have truly understood the postwar "miracle" itself, specifically, the political-economic system that has been deemed responsible for its past success.

When we say that attempts to reconcile Japan's successful past with its current crisis are lacking, we are not arguing that they possess no correspondence to Japan's postwar trajectory because most recent scholarly efforts have a certain straightforward and intuitive appeal. This appeal can be understood as follows. To rebuild itself in the wake of the Pacific War, it was necessary that economic sectors with the potential for growth get a sufficient share of economic resources that were particularly scarce in the early postwar period. Through a strategically oriented industrial policy that was implemented by "elite" and "powerful" bureaucrats in Japan's economic ministries,<sup>5</sup> and through other venues of government-business cooperation, the Japanese government designed and implemented policies that made sure this happened. The result, as scholars over the last two decades have asserted, was the highest levels of economic growth in the developed world. However, as the postwar period progressed and economic targets were reached, this development strategy resulted in resources being locked into certain sectors, keeping them from being mobile in the face of changing economic circumstances. It was this situation that led scholars to conclude that what worked well in the past now contributes to Japan's current problems.

There is little to dispute that, during the period of high growth, Japan looked like a very different country than it was in the last decade. As a result, it is not unreasonable to think that, in the last several years, something has gone wrong with Japan's political-economic system. On the other hand, if we step back and probe the assumptions that underpin this assessment of Japan's postwar trajectory, certain problems should be apparent. Specifically, it is curious how the same "elite" and "powerful" bureaucrats, who ostensibly played a central role in Japan's postwar economic "miracle," have been unable, at a very minimum, to keep the current crisis from continuing as long as it has. In like manner, we must also ask how is it that Japan's bank-centered system of corporate finance, which directed capital to those sectors with the potential for growth in the past, and supposedly in a more effective way than would have been the case with Anglo-American-type arrangements, allowed so many nonperforming loans to be made? And, finally, if lifetime employment and other special features of the postwar Japanese labor system were part of an elite strategy to employ human resources in a way that ensured their positive contribution to the country's essential economic interests, then why haven't these same elites simply redesigned Japan's labor-

market institutions so that they could continue to contribute to economic outcomes as they had in the past?

The truth is that, if the Japanese political-economic system was organized and operated in the way that most recent attempts to reconcile Japan's past success with its current problems have contended, it should never have encountered the problems with which it is now consumed. We have referred to this as the problem of "the Japan that never was" and note that it is not an intellectual problem that stems from a lack of quality scholarship on the postwar Japanese economic and political systems. Rather, this intellectual problem rests with how it has become almost a revealed truth that Japan's special political-economic features were in large part responsible for the postwar "miracle."

To be sure, there are disagreements over how important each one of Japan's special political-economic institutions was with respect to its postwar economic resurgence, but there is virtually no disagreement that their impact on postwar economic outcomes was on balance positive. Unfortunately, such a conclusion was justified more by Japan's dramatic postwar trajectory than by empirical research that demonstrated how the implied causal mechanisms actually worked. Consequently, it is our view that this nearly universal acceptance of the positive impact of Japan's special political-economic features—at least until recently when some scholars have questioned their beneficence—prevented scholars from seeing that certain long-term political and economic trends suggested in subtle but unambiguous ways that the crisis of the 1990s was long in the making.

In light of this, our purpose in this book is to develop and test an alternative explanation for Japan's postwar political-economic trajectory, one that avoids this intellectual dilemma. We begin this effort by noting that, to avoid this problem of "the Japan that never was," it is necessary that we proceed from the notion that Japan's current political and economic crisis is not the result of a generally well-functioning political-economic system that suddenly failed to respond to exogenous demands in a way that produced the miraculous results that defined Japan in the past. Rather, Japan's postwar trajectory is the result of a political-economic system that is functioning today in essentially the same way that it functioned in the past. This is because the course that Japan followed throughout the postwar period is the result of, first, politicians setting the direction and content of national economic policy in response to the changing electoral imperatives they faced throughout the postwar period and, second, actors in the private sector making business decisions in response to the economic incentives they faced throughout the postwar period.

When we say that Japan's politicians have been the driving force in the country's economic policy-making process, we are not contending that they have molded every aspect of every economic program the government enacted in the postwar period. Rather, we are saying that they are like elected officials in other parliamentary systems who use the available tools of economic policy to serve their political interests. For the Liberal Democratic Party, which singularly ruled Japan for most of the postwar period, this process began with providing benefits to the party's support groups, giving economic policy its well-known pro-farmer, pro-rural area, and pro-business orientation. As the postwar period progressed, the complexion of the Liberal Democratic Party's support base changed in a way that led to its Diet majority beginning to hemorrhage away. To maintain its electoral predominance, the LDP needed to use economic policy not only to keep its traditional supporters satisfied but also to attract new supporters into the party's fold. This led to an increasing public goods emphasis in economic policy in the 1970s and beyond.

Focusing on Japan's politicians and the electoral imperatives they face is nothing new in studies of politics and policy making in the postwar period. In fact, as we show in our discussion of the literature (chapter 2) that informs the various analyses we perform in this book, elected officials were at the center of most studies of postwar Japanese politics until Chalmers Johnson's influential work on the Ministry of International Trade and Industry encouraged scholars to focus more attention on Japan's bureaucracy. While very few Japan specialists accepted Johnson's "developmental state" idea as a completely accurate description of how Japan worked,<sup>6</sup> many directed their attention to specific agencies of the bureaucracy and their role in the policy-making process in specific economic sectors. This led to a shift in the agenda of Japanese studies, which resulted in a body of scholarship that taught us much about the interaction between bureaucrats and actors in Japan's private sector but was not very helpful for explaining Japan's overall postwar political-economic trajectory. It is only by focusing on Japan's elected officials and private actors that we can avoid "the Japan that never was" problem and explain how essentially the same behavior led to high growth and political stability at one time but ongoing political-economic stagnation more recently.

Perhaps the best illustration of the intellectual payoffs that our emphasis on electoral politics provides is witnessed in our analysis of industrial policy in postwar Japan. While most treatments of this important topic conclude that industrial policy was at least partially responsible for Japan's postwar economic miracle, the same scholars who have touted the virtues of the Japanese approach to economic management—even if only for the early decades of the postwar period—have also concluded that economic policy in Japan has been biased in favor of the country's many inefficient sectors, such

as agriculture and small business, for political reasons. Moreover, much recent scholarship that has focused on policy making in specific economic sectors has shown that the process has in fact functioned quite differently from the way that it was described in the original “developmental state” model, and, perhaps more important, that it was not conducted in a way that allowed it to be economically effective.<sup>7</sup> In light of this, the question that must be asked is why one should believe that industrial policy in particular—and economic policy more generally—had the miraculous impact on the Japanese economy that so many have said, and continue to say, it did.

In chapter 3, we offer a thorough empirical analysis of industrial policy that identifies which economic sectors received the different types of industrial policy support the Japanese government provided and in what relative amounts. The result of this effort shows that Japan’s industrial policies have been far less effective than most Japan specialists have acknowledged. The reason for this, as our electoral politics perspective suggests, is that the direction and content of economic policy was determined by Japan’s governing politicians in light of how those tools could be employed to deal with the changing electoral imperatives they faced throughout the postwar period. This is because Japan’s inefficient economic sectors (e.g., mining and textiles) received the bulk of the government’s largesse and that, even when infant industries did receive government support, the impact of this support on their productivity was negligible at best.

The results we provide in this chapter suggest strongly that the positive impact of Japanese industrial policy has been overstated and that the positive influence attributed to other arguably unique Japanese political-economic institutions has also been exaggerated. In chapter 4 we show how this is true for Japan’s bank-centered financial system and the country’s labor market institutions. It is well known that the financial system and labor relations in Japan are characterized by certain distinctive institutional arrangements. We do not argue with the way these features of postwar Japan have been described per se but rather emphasize that their positive impact on economic outcomes has been nearly taken for granted. In this chapter, we revisit these institutions and explain how Japan’s bank-centered financial system and such practices as lifetime employment, enterprise unionism, and just in time inventory management are best understood as the expected responses of Japanese firms to the economic incentives they faced early in the postwar period. Moreover, we show in this chapter how high growth essentially masked the negative consequences associated with these institutions, leading many scholars to conclude that their overall economic impact was positive.

If such features of the Japanese political-economic system are expected and did not carry the positive impact that so many have said they did, we are

left with the question of why Japan performed economically as well as it did, especially in the earlier years of the postwar period. We address this issue in chapter 5 and note that our approach proceeds from the idea that Japan's postwar economic trajectory does not require any type of special explanation. In fact, as we show in this chapter, scholarship that is based on such an assertion very often mischaracterizes the standard growth model of neoclassical economics and ignores such essential growth-accounting issues as the roles played by increasing economic inputs and total factor productivity in Japan's postwar economic outcomes. In this chapter, we demonstrate how the neoclassical model more than adequately accounts for Japan's postwar economic trajectory. Indeed, our effort in this chapter involves revealing how it is only through the standard growth model and the economic theory that underpins it that we can adequately explain how the Japanese economy went from high growth to structural adjustment.

Our focus in part II on economic outcomes is followed by an extended treatment of electoral politics, particularly as it pertains to the making of economic policy in the postwar period. The problems we address in the third part of the book proceed from the idea that Japan's political system, while characterized by features that are specific to that country, nonetheless operates much like other parliamentary systems in the democratic world. As we discuss more fully in chapter 6, this means that elected officials use the tools of economic policy to serve their electoral interests, and this universal characteristic of electoral politics in democratic countries gave Japanese economic policy in the postwar period its pro-farmer, pro-small business, and pro-rural area bias.

This is a description of economic policy making in postwar Japan that, on its face, will generate few disagreements, but its implications are controversial in how they require us to explain changes that occurred in overall patterns of economic policy making throughout the postwar period. In chapter 7, we address this issue by showing how it was the evolving electoral imperatives faced principally by Japan's ruling Liberal Democratic Party that best explains how the overall direction and content of economic policy changed throughout the postwar period. In this chapter, we discuss the different ways that electoral change impacts on a ruling party's support levels. In some cases, a ruling party's core supporters remain loyal but demographic change reduces their presence in the electorate. In such cases, a ruling party must respond by attracting new supporters while keeping core groups loyal. At other times, core supporters, for one or more reasons, fall away from their benefactor party. In these cases, a ruling party must redouble its efforts to keep core supporters loyal.

Throughout the postwar period, Japan's LDP faced both kinds of political change, and it responded to these exigencies in exactly the expected manner. For example, in recent years, the Japanese government turned increasingly to the announcement and implementation of fiscal stimulus packages to revive the country's stagnant economy. These policies were, at least initially, strongly opposed by bureaucrats, especially those in the Ministry of Finance, who argued that they not only worked counter to sound fiscal policy but also were counterproductive to seeing Japan through its current period of structural adjustment. In spite of this, more than a dozen packages were announced over a fifteen-year period which, as we are able to show clearly, is best understood as politically motivated attempts by incumbent governments to generate electoral support at critical political junctures. Conceiving of this particular economic policy effort in this way also helps us to understand that the fairly long period of government ineffectiveness in the face of the current crisis was the result not so much of recalcitrant bureaucrats but, rather, an electorally weakened LDP, governing in coalition and unable to afford any policy initiative that threatened to reduce its support base any further.

Showing that the LDP used the tools of economic policy throughout the postwar period to serve its electoral interests forces us to address the question of why it ultimately lost its status as Japan's predominant party. We address this question in chapter 8 and show that the LDP's continued decline can be traced to two principal factors. The first is that, as the ruling party was forced to use economic policy to attract new supporters, its economic policies worked at cross purposes and ultimately undermined its efforts to maintain its ruling status. Second, as the ruling party's majority hemorrhaged away, the costs of maintaining itself in power increased. This circumstance naturally rewarded individuals in the party who could bring more political money to the electoral process, creating increased incentives for corruption. This problem of corruption has been ever present in Japanese politics, but the Japanese public has tended to be rather tolerant of this kind of malfeasance. This generally tolerant attitude toward political wrongdoing was encouraged by the LDP's ability to provide benefits to its members' districts in the form of, among things, pork-barrel projects, which required an ever expanding economic pie. Unfortunately, when Japan's economic bubble burst, and especially when the dramatic decline in asset values began to show up in the real economy, the LDP's ability to use economic policy to sustain its majority was seriously compromised.

By showing how important postwar outcomes were the result of public and private actors responding to the economic incentives they faced, we offer



what we hope is not only a better explanation for Japan's postwar political-economic trajectory but also a more effective way to understand the political-economic challenges that Japan currently faces. This is the question to which we direct our attention in the final chapter of this book, and we call this ninth chapter "The Past in Japan's Political-Economic Future." We selected this as the title of our final chapter because of our contention that understanding how the public and private sectors have responded to Japan's structural adjustment thus far, and how actors in these two sectors are likely to behave as time goes on, requires that we understand correctly how Japan's public and private actors behaved throughout the postwar period. This is perhaps the most important reason why it is necessary to avoid the intellectual problem of "the Japan that never was" because, as we have emphasized here, this intellectual problem is not about comprehending the challenges that Japan currently faces as much as it is about not fully understanding how its political-economic system was organized and operated in the past.

In light of Japan's postwar economic evolution, the explanation that one provides for the current period of structural adjustment must be developed in light of the political and economic constraints Japan's leadership faces in its attempts to design and promulgate meaningful political and economic reform. Many scholars have been clear as to the policies that need to be enacted if the end of the current structural reform is to be hastened. What is often missed in the recent literature, however, is how difficult it would be for Japan's elected officials to depart in any notable way from what they have been doing since the economic bubble first burst. Like their behavior throughout the earlier decades of the postwar period, the response of Japan's politicians to the current crisis is exactly what we would have expected given the political conditions they have been facing in the last ten years. These conditions have rendered any policy action that departs radically from what we have witnessed partner to very high political costs. Consequently, unless political conditions change in some dramatic way, the response of Japanese officialdom to the current crisis is unlikely to veer much from its current course.

## Chapter 2

### HOW DIFFERENT IS DIFFERENT?

#### *Bureaucrats, Politicians, and Economic Policy Making in Postwar Japan*

*Power in Japan is held 90% by bureaucrats and only 10% by politicians.*

—Miyamoto Masao  
Bureaucrat, Ministry of Health and Welfare

*The bureaucracy drafts all the laws. All the legislature does is to use its powers of investigation which for about half the year keeps most of the senior officials cooped up in the Diet.*

—Sahashi Shigeru, Former Vice Minister  
Ministry of International Trade and Industry

*I am in charge of everything.*

—Takana Kakuei,  
Former Prime Minister of Japan

*Politicians are pitchers, bureaucrats their catchers. A good pitcher decides himself if he will throw a fastball or a curve, but a weak pitcher throws the pitches as his catcher signals them.*

—Nakasone Yasuhiro  
Former Prime Minister of Japan

**T**he 1990s was a decade of surprises for Japan scholars. This is true because the country that was often said to embody a different kind of capitalism proved to be no more immune to the structural adjustment difficulties associated with mature economies than any other advanced nation. This is also true because Japan's political system, which so many said possessed an institutional logic that enabled it to advance national economic development goals like no other nation, appeared to be plagued by the problems of political stasis that often characterize democratic politics elsewhere in the developed world. Because of this, the events of the 1990s brought to

light the idea that there may be something lacking in how we have understood the way that Japan is organized and has operated in its political and economic life throughout the postwar period. This does not mean that Japan scholars failed to offer insights into why that country's economic engine stalled in the 1990s and why the political supports that helped sustain the system of high growth for so long collapsed. Rather, it tells us that our picture of how Japan's political-economic dynamics worked throughout the postwar period has been incomplete, and this in turn has kept us from understanding why its postwar trajectory followed the dramatic course it did.

While there may be many reasons that the 1990s caught the community of Japan scholars off guard, perhaps the most important rests with how the agenda of Japanese studies changed in the last two and a half decades. As mentioned above, in the 1980s and 1990s, Japan scholars became increasingly attracted to intellectual problems that, when addressed, resulted in an increasingly thorough mapping of the economic policy-making process but not a broader theoretical understanding that could explain why Japan's postwar political-economic dynamics involved high levels of economic growth and relative political stability for most of the postwar period only to vanish in the wake of the bursting of the economic bubble. This shift in the agenda of Japanese studies occurred because of the influence of what is known to all in Japanese studies as Revisionism.

When we say that Revisionism was influential, we are not arguing that revisionist ideas were universally accepted nor that the manner in which individual promoters of that view described Japan's political-economic system went unchallenged. Indeed, most Japan specialists in economics and political science never entirely accepted the view of Japan advanced by revisionism's most vocal proponents.<sup>1</sup> What we are saying instead is that Revisionism was most important in how it encouraged Japan scholars to think of the politics of economic policy making in Japan as a process whose essential working mechanisms are located within the agencies and bureaus that combine to form the Japanese state. As a result, areas of research that involved analyzing the policy-making process by mapping the internal and external interactions of bureaucratic actors in specific economic sectors became endowed with elevated levels of intellectual significance.

For more than three decades after the close of the Pacific War, nearly all scholarly writing in English on the postwar Japanese economy and political system was based on certain assumptions. These assumptions recognized that Japan's political evolution was influenced by cultural traditions and historical circumstances that are fairly specific to Japan and that, as a result, its postwar political system possessed qualities that differentiate it from those of other democratic nations. In spite of these differences, it was also assumed

that, in its political life, Japan is a democratic country with a parliamentary system that is not unlike other parliamentary systems in Europe. Similar assumptions guided scholarship on the Japanese economy earlier in the postwar period. Specifically, while most scholars at this time recognized that Japan's economy has certain institutional features and behavioral properties that distinguish it from economies elsewhere in the developed world, they also assumed that Japan is essentially a capitalist country with a market economy that is not entirely unlike the market economies of other advanced nations. These assumptions can be summed up in the statement that, while Japan in the postwar period is politically and economically different, it is different, small *d*.

There have been individual scholars who did not wholly subscribe to this different, small *d*, view of Japan, and there were scholars in this tradition who helped mold this particular view of Japan from within. These dissenting views produced changes at the margins of this different, small *d* thinking from time to time, but they never formed an organized alternative to the view that Japan is essentially a democratic and capitalist nation.<sup>2</sup> In this way, Japan scholars adhering to this different, small *d* understanding held a near intellectual monopoly that lasted until the 1980s when this view of postwar Japan was directly challenged by several individuals who promoted a very different way of thinking about that country.

As stated above, this challenge is known as Revisionism, and its founder is former University of California, San Diego, Political Scientist, Chalmers Johnson. To be sure, there are other individuals who had been writing what were essentially revisionist views of Japan prior to the 1980s,<sup>3</sup> but it is Johnson who organized these ideas into a single, forcefully executed argument that Japan is politically and economically different from its counterparts in the West. Evidence of Johnson's very different view of Japan can be found in his earlier academic work on that nation's quasi-public corporations,<sup>4</sup> but his revisionist challenge received its fullest expression in his analysis of Japan's Ministry of International Trade and Industry.<sup>5</sup> By reconstructing the institutional history of this important government agency and by discussing the various reports it issued and the policies it recommended, Johnson sets out what he claims are those political-economic features of the Japanese state that distinguish it from its counterparts in the West.

There are other individuals who promoted Johnson's revisionist view of Japan, but they have generally not been professional social scientists. While there are certainly more, the most important involve a triumverate of two journalists and one policy advisor. The individual from the policy world is Clyde Prestowitz who, after five years as a special counselor to the Secretary of Commerce in the Reagan administration, became founder and president of

the Economic Strategy Institute in Washington, D.C.<sup>6</sup> The first of two journalists is James Fallows who was affiliated with *The Atlantic Monthly* when he completed his most notable writing on Japan,<sup>7</sup> while the second journalist is Karel van Wolferen who has lived in Japan for many years as East Asia correspondent for the Dutch newspaper *NRC Handelsblad*.<sup>8</sup>

While the views of postwar Japan propounded by these and other Revisionists are in no way carbon copies of each other, they all share certain common characteristics.<sup>9</sup> The most important of these concerns the assumptions that these individuals brought to their respective attempts to explain why Japan experienced such remarkable postwar economic success, assumptions that go to the heart of how the Japanese political-economic system is put together and operates. Contrary to other Japan scholars who contributed to the literature earlier in the postwar period, revisionists have assumed that Japan was not simply different, but different capital *D*. This means that they assumed that Japan is not really democratic in the way that other parliamentary systems are democratic and not really capitalist in the way that other market economies are capitalist.<sup>10</sup>

Revisionists assume that Japan is less democratic than the parliamentary systems of Europe not because of what it lacks in its political structures. Johnson and other Revisionists acknowledge that the institutional prerequisites of democracy including free elections, political parties, constitutionally protected rights of individuals and the press, all exist in Japan more or less as they do elsewhere in the developed world. Rather, the inability of Japan's polity to transcend the limits imposed by its authoritarian past and function as other democratic nations ostensibly function is due much more to what the Japanese political system does possess. Most important is Japan's "elite" bureaucracy that Revisionists have asserted actually rules the country in spite of the fact that the Japanese constitution explicitly makes the National Diet the highest organ of state power. To use Johnson's words, in Japan, "bureaucrats rule while politicians reign," which means that, unlike other parliamentary systems, public opinion and the will of the people do not have much impact on policy outcomes. It is for this reason that Chalmers Johnson and the small number of his committed acolytes accept the assertion that Japan is more a "soft authoritarian" nation than it is a democracy.

The idea that politics and policy making in postwar Japan are dominated by a class of unelected "elite" bureaucrats represents a dramatic departure from how Japan scholars handled the issue of political power and policy making prior to the rise of Revisionism. To reveal just how much Revisionism departed from prevailing views, we must remember that, when we ask the question, who possesses and exercises political power in a country, we are asking which public and possibly private actors, either singularly or in some combination,

determine the direction and content of that nation's policy. This is a difficult question to answer precisely for any democratic country because it requires that one trace out all potential sources of policy influence, calibrate the relative impact of each influence on each policy area, and then sum up these weighted influences over all policy outputs.

While American political scientists have studied the United States much more than any other country, the debates over who possesses and exercises political power in Japan, particularly as this relates to the making of economic policy, are similar to those that divided scholars studying the American political system. With the rise of Revisionism, Japan scholars became divided over whether policy making there is essentially pluralist with the balance of political power held by elected politicians or whether it is more authoritarian and elitist where the balance of political power is held by bureaucrats, particularly those in the country's economic ministries like the former Ministry of International Trade and Industry and the Ministry of Finance.

Nonetheless, there have been a number of studies that essentially continued the tradition of placing parties and politicians at the center of the political process as Japan specialists did earlier in the postwar period.<sup>11</sup> While not ignoring Japan's bureaucracy, such studies proceeded from the notion, either explicitly or implicitly, that parties and politicians determined the direction and content of national policy, specifically, economic policy. By making political parties and politicians the target of their scholarly attention, these Japan specialists were in a sense helping return the agenda of Japanese studies to what defined it earlier in the postwar period. This is important for our purposes because, by focusing on broader postwar political trends, they helped us provide a way to understand why the 1990s brought such dramatic changes to Japan's economy and political system. As stated above, to show why this is the case, it is helpful to trace out how the scholarly debate over the locus of political power in postwar Japan helped define the agenda of Japanese studies and, thus, encouraged a certain line of research on Japan's political-economic system.

### **POLITICAL POWER IN POSTWAR JAPAN: A RETURN TO THE PAST**

There are many features of Japanese politics that arguably make it distinctive, but perhaps most notable is the pattern of single-party predominance that defined election outcomes throughout most of the postwar period. While Japan entered the postwar period with many active political parties,<sup>12</sup> from the Fall of 1955, one party, the Liberal Democratic Party, emerged as the predominant force in

the nation's electoral politics. It is for this reason that the numerous studies of Japanese politics that appeared in the early decades of the postwar period tended to focus on how the nation's politics were dominated by this single political party.<sup>13</sup>

When one examines this early literature, one immediately notices that scholars who wrote about politics and policy in Japan prior to the ascendance of Revisionism recognized the central role played by the National Diet in the policy-making process. This was largely because they understood its constitutional position as "the highest organ of state power and . . . the sole law-making organ of the State."<sup>14</sup> These scholars did not in any way stop at the Diet and leave policy making entirely to Japan's politicians because they recognized that the process involved more influences than the above-quoted chapter and article of Japan's constitution suggests. Such scholars noted that policy outcomes in Japan were influenced by all of the country's affected private interests as well its country's civilian bureaucracy. Nonetheless, acknowledging the influence of other actors was not in any way meant to suggest that the National Diet was located anywhere but at the apex of decision-making power.

This point of view is aptly illustrated by the work of Hans Baerwald, a member of the Government Section of the Allied Occupation of Japan and, for most of his academic career, a professor of Political Science at the University of California, Los Angeles.<sup>15</sup> Baerwald dedicated much of his career to studying the politics of Japan's National Diet, and he wrote the first complete study of that ever interesting political institution.<sup>16</sup> In that volume, Baerwald explained that Japan's politicians are important in the policy process and that the Diet's influence, given its constitutional mandates, is "not to be denigrated lightly" because "[n]o legislative bill, whether it be entirely new, an amendment to existing law, a treaty, or a resolution, becomes the law of the land until it has been approved by both houses."<sup>17</sup> On the other hand, Baerwald, like other scholars writing earlier in the postwar period, did not take the position that Diet politicians were the only important policy actors in the Japanese government. He was very clear that, while the Diet and the politicians who controlled it were allocated the supreme level of political power by Japan's constitution, Japan also had a civilian bureaucracy that was staffed with the nation's educated elites and, for a number of reasons, had influence on the policy-making process.

Japan's bureaucrats were influential because of the education and government experience they possessed. Even today, Japanese bureaucrats tend to be the nation's educated elites, graduating principally from Japan's top universities. Consequently, when the Pacific War ended and the Occupation began, members of the bureaucracy undoubtedly had accumulated much government

experience and substantial policy expertise. The expertise and experience advantages that bureaucrats possessed were enhanced at the time for two other reasons. First, politicians were severely constrained during the war years by the militarist government, and, second, when such constraints were removed by the Occupation, many of the most experienced politicians were purged by the Allied Occupation because of their involvement in the war.<sup>18</sup> Because of this, scholars writing earlier in the postwar period argued that, as the LDP's tenure as the nation's ruling party continued, its members gained government experience and acquired policy expertise that helped the party gain increased power over the bureaucracy.<sup>19</sup>

### THE REVISIONIST CHALLENGE

This understanding of power and policy making in Japan represented the prevailing view until about the mid-1980s when, as stated above, the revisionist view of political power in Japan made its way into the scholarly discourse and, within a very short period of time, challenged the different, small *d* view. Revisionism took what was understood as a complicated, multi-actor bargaining process with the Diet and turned it into an authoritarian process whereby the direction and content of national policy was determined by a class of nonelected bureaucrats regardless of what their elected counterparts thought or did. As stated above, Chalmers Johnson was not the first Japan watcher to assert that, in Japan, bureaucrats are more powerful than politicians, but it was his 1982 book on the Ministry of International Trade and Industry that organized such ideas into a distinct revisionist challenge. Why Japan's bureaucrats are more powerful than elected officials can be found in the second chapter of his book on MITI entitled, "The Economic Bureaucracy." Paradoxically, while the understanding of Japanese politics that Johnson advanced is unambiguous, the argument he offered in support of such a view is anything but.

There are many reasons Revisionists contend that bureaucrats are Japan's most powerful political actors and, thus, dominate the process by which economic policy is made and implemented. While somewhat forced, we have attempted to simplify matters by reducing these to three reasons that are essential for understanding why Johnson and other promoters of the revisionist view see bureaucrats as Japan's most powerful political actors. The first of these reasons is rooted in the allegedly ongoing influence of Japanese history and culture, specifically, the notion that Japan's political past is one of authoritarianism where elected officials were hardly the dominant class of political actor. The argument is that, despite the political reforms that the



Allied Occupation imposed on Japan, bureaucratic strength and politician weakness has continued throughout the postwar period. Again, this is because there have been certain ongoing historical and cultural influences that continued to empower bureaucrats and enfeeble their elected counterparts.

We refer to this first reason as a historical-cultural continuity argument and note that part of it is quite amorphous and requires that one see Japanese politics as possessing an almost transcendental quality, that is, a quality that provides members of Japan's bureaucracy with the highest levels of respect and deference accorded to any political actor in the nation. This respect and deference endows members of Japan's bureaucracy with a very high social status that has its roots in the fact that Japan's modern governmental apparatus was conceived and assembled largely by former samurai. As Chalmers Johnson has asserted in his discussion of the sources of bureaucratic power in Japan and its persistence throughout the postwar period, "Japanese do not normally question the authority of the government because they respect its 'samurai sword.'"<sup>20</sup>

This enormous respect and deference ostensibly accorded to Japan's bureaucrats also derives from another more objective source, one that concerns the education and examination patterns characteristic of a bureaucratic career in Japan. It is well known that a college education is necessary to join one of Japan's government agencies at the national level, and it is also well known that many of Japan's governmental agencies accept only top graduates from a very small number of elite universities.<sup>21</sup> This is particularly true of such important agencies as the Ministries of Finance, the former International Trade and Industry, and Foreign Affairs. Moreover, to join such a group of august college graduates requires that individuals pass the most competitive exams administered in the country, and, in some ways, the strict educational path of the Japanese bureaucrat stands in stark contrast to the making of a typical elected official. This does not mean that nonbureaucratic or "pure" politicians are not college graduates. Most Diet members are college graduates and often from Japan's top universities. It means, rather, that the educational patterns that define a bureaucrat are not necessarily those followed by an elected official who comes up through local politics to obtain a seat in the National Diet.

The second reason Revisionists argue that bureaucrats are the dominant political actor in Japan concerns the conditions that prevailed during the Allied Occupation of Japan and, specifically, how these conditions helped increase bureaucratic power at the expense of Japan's politicians. One aspect of this involves the fact that, unlike occupied Germany where the Allied Powers ruled the country directly, the Occupation of Japan was conducted through certain extant agencies of the Japanese government. This does not

include all politicians and bureaucrats who were serving in the government when hostilities in the Pacific War ceased because, as mentioned above, MacArthur and the Allied Occupation purged from government service those individuals deemed to have had any involvement with the war. Purged individuals included all police and military personnel and many elected officials who were serving in wartime governments, but many, if not all, bureaucrats in the economic ministries were left untouched.

Another aspect of this involves the socioeconomic conditions that prevailed in the first years of the postwar period. As is well known, the war effort stretched Japan's human and material resources to the point of complete exhaustion, and the waning months of the conflict heaped an untold amount of destruction on Japan. When the Occupation started, the bulk of Japan's citizens were without food and shelter and the means of acquiring either of these material necessities. Such desperate conditions demanded decisive policy action, which Revisionists have argued fell mostly on the shoulders of bureaucrats in those agencies that were retained by the Occupation to assist in ruling the country. Moreover, since politicians were weakened by the purges and divided by intense partisan bickering that was common in the first few years of the Occupation, the policy imperatives faced by the country during that time had the effect of empowering bureaucrats at the expense of their elected counterparts.

The third reason that Revisionists advance a dominant-bureaucracy view of political power in postwar Japan concerns how certain actions taken by bureaucrats in the Occupation and post-Occupation periods helped advance their power and diminish that of Japan's elected Diet members. One part of this is a continuation of the second reason that, as Japan's administrative agencies began to grapple with the country's enormous economic problems in the early postwar years, they effectively acquired more political power. In the first decade of the postwar period, many laws were passed and numerous procedures were established to administer such things as the allocation of scarce credit and foreign exchange for the rebuilding of Japan's industrial capacity. In support of such efforts, members of Japan's bureaucratic elites drafted numerous reports and plans and established many regulations and administrative rules that made their involvement in the day-to-day operation of the nation's economy a reality. These actions then allowed Japan's bureaucrats to establish their power and administrative capabilities at the expense of Japan's elected politicians, especially in the area of economic policy making.

The other part of this reason recognizes that, while the behavior of bureaucrats worked to increase their effective political power, it also had the impact of keeping the Diet from developing into a national legislature with political power similar to that found in other democratic nations. Part of the

problem supposedly rested with LDP politicians themselves, specifically the divisive tendencies of ruling party factions, the lack of cooperation among the opposition parties, and the argument that Japan's politicians are ever consumed with parochial matters and, thus, unable to rule Japan in an effective manner. This is not to be underestimated, but even if politicians in Japan could have overcome their divisive tendencies and parochial orientation, Revisionists assert that they still would not have been able to overcome the power of the bureaucracy. This is because the ruling party in Japan was effectively colonized by former bureaucrats who left their posts in one of Japan's important ministries and got elected to the Diet. Chalmers Johnson made this point clearly when he concluded that the "influence of former bureaucrats in the Diet has tended to perpetuate and actually strengthen the prewar pattern of bureaucratic dominance."<sup>22</sup>

#### **PLURALISTIC POLICY MAKING: MULTIPLE ACTORS IN MANY ECONOMIC SECTORS**

As stated above, while most Japan specialists trained in economics and political science agreed that Japan's bureaucracy is comparatively powerful, they never accepted the revisionist argument that bureaucrats are indisputably the country's most powerful political actors. For this to be true, one would have to believe that the Occupation's democratic reforms were not all that meaningful and that the formal powers granted to the Diet by the postwar constitution simply did not amount to anything. These are difficult things to accept if, at the same time, one also accepts that Japan is a democracy even with special characteristics that make it more or less distinct. This is why many Japan specialists had trouble taking the revisionist view at face value. Nonetheless, the revisionist view was provocative enough to encourage the same Japan specialists to try to determine just what role bureaucrats played in the policy-making process by investigating that process in greater detail in specific economic sectors.

As mentioned above, the result was a shift in the research agenda of Japanese studies away from politicians, political parties, and the Diet to those agencies and bureaucrats responsible for economic policy in certain economic sectors and, moreover, to the private actors who were the targets of economic policy in those sectors. Numerous studies were conducted which, in detailed analyses of economic policy making, revealed quite clearly that the revisionist perspective involved a greatly oversimplified view of the process through which economic policy is actually designed and implemented in postwar Japan. Johnson and other proponents of the revisionist perspective took note

of this work and eventually came to the view that Japan's politicians had slowly encroached on the policy autonomy of the bureaucracy as the postwar period progressed.<sup>23</sup> While there are some Japan scholars who echo this theme of declining bureaucratic power,<sup>24</sup> the research that Revisionism encouraged showed that the problem with the "developmental state" view of Japan went far beyond the growing power of Japanese politicians.

The dominant-bureaucracy view of Japanese politics was undermined as Japan scholars uncovered more and more details of how the policy-making process actually worked in specific economic sectors. While many aspects of this process in Japan were shown not to fit the revisionist perspective, most important was how this research revealed that policy making in Japan is more complicated than Johnson's model of bureaucratic dominance suggested. This involved numerous features of economic policy making in Japan, but we can reduce these features to those that rest with Japan's bureaucracy and those that rest with other influential public and private actors.

In the literature on the Japanese bureaucracy, and the developmental state more generally, the bureaucracy of Japan has been presented as a kind of institutional monolith.<sup>25</sup> This does not mean that scholars ignored the inter- and intraministerial disagreements that existed within the Japanese bureaucracy, because adherents to the developmental state view of Japan recognized that sectoral conflicts do in fact exist. Rather, it means that Revisionists and other promoters of the developmental state view relegated whatever ministerial disagreements existed by arguing that Japan's bureaucratic leaders overcame their divisions because of how their collective agreement on national economic goals allowed them effectively to speak in unison and to act in concert.

From the distinctive perspective of the visions and reports that have been prepared and published by Japan's numerous ministries throughout the postwar period, this view is not entirely unjustified. However, when considered in light of how bureaucrats in the subunits of Japan's ministries have actually carried out their duties in specific areas of economic policy making, a different picture emerges. That sectoral competition exists within Japan's bureaucracy and has posed operational problems on Japan's bureaucrats, particularly in those areas where jurisdictional boundaries were not clear, is not really new.<sup>26</sup> Nonetheless, research carried out in the last two decades has shown in much greater detail just how the Japanese bureaucracy is often consumed by sectoral conflicts that sometimes impede its ability to monitor the economic sectors over which its many agencies and their bureaus have jurisdiction. In this way, more recent research has revealed just how extensive sectoral conflict is and to what extent such conflict has inhibited the bureaucracy from acting with the authority it has been said to possess.