The Politics of Economic Reform in Japan
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The Australia–Japan Research Centre (AJRC) hosted a roundtable discussion on ‘The Politics of Economic Reform in Japan’ on Friday 26 July at the Australian National University (ANU). Professor T. J. Pempel from the University of Washington led the discussion with a presentation on ‘Regime Change – Japanese Politics in a Changing World Economy’. A panel discussion on ‘The Political Economy of Reform’ began with a presentation by Centre Associate Ms Veronica Taylor from the Asian Law Centre, University of Melbourne, on ‘Restructuring Transactions in the Shadow of the Japan Fair Trade Commission’. Former Associate Director of the AJRC, Associate Professor Hayden Lesbirel from James Cook University, followed with ‘Wheeling and Dealing: Reforming Electricity Markets in Japan’. Centre student Mr Tony Warren presented a paper on ‘The Political Economy of Reform in Services and Professor Purnendra Jain from the University of Adelaide closed the session with his paper on ‘Political Reform and Local Government in Japan’.

The second session, ‘The Politics of Reform in Japan’, began with a paper by AJRC Research Committee member Professor Alan Rix (University of Queensland) on ‘Reforming Japan’s Natural Disaster Management System’. This was followed by AJRC student Mr Chris Pokarier’s paper, ‘Some Reflections on Recent Economic and Political Developments in Japan’. Centre Associate Dr Aurelia George Mulgan (ADFA, University of New South Wales) presented two papers: ‘Electoral Determinants of Agrarian Power: Measuring Rural Decline in Japan’ and ‘Politics of Deregulation and Japanese Agriculture’. The last paper in the session, ‘Consumer Movements in a New Political Environment’, was presented by Centre Research Fellow and Lecturer in Political Science at the ANU, Dr Keiko Tabusa.
Regime Shift: Japanese Politics in a Changing World Economy

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1. REGIME SHIFT: JAPANESE POLITICS IN A CHANGING WORLD
ECONOMY

Introduction

For the past several years, Japan has been in the midst of a fundamental regime shift. At least three essentials of the old regime have been undergoing sweeping changes. First, on the political level, the 38 years of dominance by the Liberal Democratic Party (LDP) ended with the party’s internal fragmentation, its loss of a parliamentary majority and executive control, and the introduction of a new electoral system for the Lower House of the Diet. In July 1993 the handsome, youthful descendant of a well-established samurai family, Hosokawa Morihiro of the Japan New Party, cobbled together an ideologically disparate, seven-party coalition that made him Japan’s first non-LDP prime minister since the party’s formation in 1955.

Soon thereafter, the Social Democratic Party of Japan (SDPJ; previously the Japan Socialist Party, JSP), long the LDP’s bete noire, ended nearly 50 years in the political wilderness as its leader Murayama Tomiichi became prime minister in coalition with the LDP and another small conservative party, Sakigake. After taking power, however, the SDPJ also wound up squandering whatever ideological cohesion it once had by reversing its hitherto sacrosanct policy positions on Article IX, defense, the US–Japan Security Treaty, and the dispatch of Japanese troops abroad. Largely as a consequence of this, the party was the heaviest loser in the 1996 elections, and the party’s few remaining parliamentarians fell to quarreling with one another.

The mid-1990s were years of rampant party realignment. Kaleidoscopic groupings and regroupings led cynics to suggest that Japanese politicians and political groupings were like passengers standing on a platform waiting just long enough for the next train to come in, when they would jump on board and move on for another station or two. Individual parties and governmental coalitions flashed into view and disappeared with the unpredictability of fireflies. Between 1993 and 1996 alone eleven different political parties shared power and four individuals held the office of prime minister.
Although the LDP re-entered government in alliance with Murayama and then became the sole party of government following the 1996 elections, the party no longer exerted the sweeping dominance that it once enjoyed (see Pempel 1990; Leviathan 1994, p. 25). Electoral politics and the Japanese party system were in the midst of a massive overhaul that undercut roughly 25 years of previous stability.

Second, on the economic front, Japan’s seemingly endless string of achievements from the early 1950s until the end of the 1980s came to a crushing halt with the puncturing of the economic bubble, the simultaneous collapse of both stock and land prices, five years of almost zero growth from 1991 to 1995, an international downgrading of Japanese bonds, the collapse of a number of substantial financial institutions, and a host of other economic reversals (see Noguchi 1992, p. 25). These represented a dramatic turnaround from the unrelenting successes that had previously marked the national economy.

Third, in international relations, the once close fraternal relationship with the United States — solidified by common Cold War opposition to communism, the USSR and China — had become marked by something akin to sibling rivalry; the security-bonded allies discovered they were economic rivals as well. This competition was manifested in a series of trade and market disputes throughout the 1980s and early 1990s that were wrenchingly deviant from the general cordiality that had characterised relations from the 1950s into at least the early 1970s. And in the wake of the Gulf War, US–Japan differences on security also came to a head, eventually leading to Japan’s redefinition of the roles that its Self-Defense Forces regime could play in international military actions. By the latter years of the 1990s, Japanese conservatives were actively discussing Japan’s security and foreign policy options in ways unheard of a decade earlier. Many had also become worried about the long-term dependability of ties to the United States and were expressing worry about the possibility that Japan would be ‘bypassed’ and that China would replace Japan as America’s major ally in Asia (see, for example, Terashima 1996).

Such shifts have generated a widespread outpouring of analyses. Specific details are plentiful; so are questions about the extent to which the Japanese political economy is, or is not, undergoing ‘meaningful’ changes. Nor is there any shortage of predictions about the alleged inevitability of one or more broad directions in which Japan will be forced to move. Recent events in Japan are providing a Rorschach test onto which all manner of analysts, reformers and future planners can project their theories, proposals and fondest hopes.
This essay adopts a different perspective. It argues that the Japanese political economy is indeed undergoing a fundamental, deep and structural set of transformations. These are occurring at what might be thought of as a middle level of politics and economics, one far deeper than the ever-recurring shifts in personalities and party strengths, but far less comprehensive than the kinds of totalistic shifts involved in, say, a transition from authoritarianism to parliamentary democracy or from a centrally planned economy to market-based capitalism. Such shifts are taking place at the ‘regime’ level (Pempel 1992; Pempel forthcoming).

Specifically, this paper argues that recent political and economic events in Japan reflect much deeper restructurings along the three critical dimensions that constitute a domestic regime: one, the character of the socio-economic coalition that rules the country (and by implication, the socio-economic forces that are its major opponents); two, the political and economic institutions through which power is acquired and exercised; and three, the public policy profile that gives broad political direction to the nation. Each has its own analytic autonomy, yet simultaneously all three interact with one another in reinforcing and overlapping ways. In combination, they constitute Japan’s political-economic ‘regime’.

These changes, sharpened and crystallised though they have been by recent recombinations in the party system, the economy and Japan’s bilateral relationships, in fact have far deeper roots and structural causes. The shifts currently taking place in the Japanese regime are the result, I argue, first, of alterations in the international political economy and the difficulties Japan’s prevailing regime had in dealing with them, and, second, of endogenous changes within Japan’s own demographic profile that eroded many of the power arrangements of the old system and that weakened the glue holding the old regime together. This dynamic combination of exogenous and endogenous changes has been the causal core of the restructurings currently taking place within Japan. The consequence is almost certain to be the creation of a new regime that will be based on revised socio-economic coalitional arrangements, modified political institutions, and uncharted directions for public policy.

The paper is organised into three main sections. The first outlines the past regime of one-party dominance in Japan. The second examines the changes that undermined that earlier regime. The paper then explores the new institutional, socio-economic and policy cleavages emerging as a prelude to the introduction of some new regime, along with the ways in which future conflicts are likely to revolve around these differences. Before proceeding, however, I highlight what this article does not attempt to do, lest readers mistake its intent or its claims.
Three caveats

It is important to make clear from the outset what this article does not claim. At least three potentially mistaken impressions should be avoided. First, the article in no way suggests that Japan at some relatively near point in the future will bear no resemblance to Japan as we have known it. Stated in such an extreme way, of course, the point should be self-evident. Political, economic and social institutions rarely vanish completely despite significant or radical adjustments; cultural predispositions do not shift overnight; personal, group and institutional power relations are rarely so completely reversed as to leave the once-powerful completely impotent and the once-impotent at the heights of power.

Yet, too often, discussions of Japan are reduced to the dichotomous question: ‘is Japan changing or not?’ At almost any time period, the simple answer must be ‘both’. Continuity and change are not dichotomous alternatives; rather, they exist on a continuum. Change is less a matter of ‘yes’ or ‘no’ and more a matter of ‘how much?’ and ‘along what dimensions?’

Thus, while I stress the changes occurring in Japan and underline their importance, I intend in no way to deny the probability that numerous important aspects of the Japanese political economy will remain. In speaking of a ‘regime shift’, I seek to identify the central dimensions along which change is occurring and is likely to continue; in no way do I suggest either that resistances will not take place or that all other aspects of Japan’s political economy will be comprehensively swept along in the wake of these changes.

Second, this article contends that the political economy based on conservative political dominance, a particular version of high economic growth, and a certain bipolar security policy has ended. But it does not argue that a political party called the LDP cannot regain electoral or parliamentary control. Nor does it imply that the Japanese economy has become permanently incapacitated or that it will never again achieve high and enviable levels of growth and international competitiveness, Nor, in pointing to shifts in the US–Japan relationship, is there any implication of a ‘Coming War with Japan’ or any such cataclysmic breakdown in ties between the two countries (Friedman and Lebard 1991).

What the article does, however, contend is that if a party called the LDP manages to hold political control for another 10 or 20 years or more, it will be a very different LDP from that which dominated Japanese politics from 1955 to 1993. Most fundamentally, its socio-economic base will be different; it will be functioning through altered institutions; and it will be a party pursuing different public policy targets. Moreover, if (not when) the Japanese
economy is revitalised, it will also be a substantially different economy, one, among other things, lacking the hothouse qualities that kept Japan’s home market almost completely insulated from foreign competition. Nor will it be an economy in which the major engines of national growth are devoid of substantial overseas investments and operations. Rather, it will be a market with far fewer internationally non-competitive sectors and firms and one in which economic decisions will be far less insulatable from world market conditions. And, finally, while the United States and Japan are likely to remain reasonably close economically and militarily, that relationship is almost certain not to revert to its past levels of unilateral paternalism and protectionism.

Third, and finally, this article makes no claims that any specific outcome or mix of outcomes is historically inevitable or morally desirable, strong as my personal opinions concerning various of these points may be. Current assessments of Japan are rife with such predictions, alleging, for example, the ‘inevitability’ of a two-party political system, an end to money politics, greater bureaucratic deregulation, enhanced democratisation, more power by elected officials over bureaucrats (or the reverse ), liberalisation of markets, a more activist role for the Japanese military, closer ties to Asia and so forth. While I believe that many of these predictions are patently silly and lack any historical or comparative sensitivity, this article takes no specific position on any of them. It argues that the old regime has ended; it does not provide a sharp outline of the regime that will eventually be constructed to take its place. Japan, I argue, is in the midst of a regime shift; but that shift is still in progress. Likely as many specific outcomes may appear in light of the pressures and changes discussed in this article, ultimately, whether most of them occur will be highly contingent on a complex mixture of historical contingencies and human choices. This article seeks to identify the major forces that are pressing for changes in Japan; it does not attempt to predict the specific ways in which those changes will play out over time. To the extent that human choices will shape these outcomes, it is safe to assume that some of these choices will be wise; others will be foolish; but none will be inevitable.

**Japan’s conservative regime**

Past conservative dominance and the contemporary changes taking place in Japan are best understood at what I am calling the ‘regime’ level. As noted above, a regime functions above the day-to-day hubbub of micro-level politics. It is more than the government of the day. But
it is also far less, in substance or in longevity, than a complete constitutional order or a political community. A ‘regime’ involves a sustained fusion among three things: political institutions, particular segments of the socio-economic order, and a specific mixture of public policies. Within democracies, the character of this fusion — that is, the nature of a regime — is mediated in important ways by elections and the political party system. A stable regime is characterised by a regularised pattern of political and economic interactions that are synergistic in character: all three traits of a regime feed into and reinforce one another. In this sense, regime equates with a particular social order and with what Schattschneider would call a prevailing ‘mobilization of bias’ (Schattschneider 1960). The character of the conservative regime that dominated Japan for most of the postwar period, and the one that is rapidly being dismantled, can be sketched quite briefly.

For most of the postwar period, Japanese institutional arrangements reflected the legacies of late industrialisation: particularly concentrated financial and industrial structures and a centralised and powerful national bureaucracy (Gerschenkron 1962). These traits remained predominant despite the many undeniable changes that took place in various of Japan’s prewar structures and the enhanced power of the electoral system and party politics during and after the Second World War (Pempel 1987, pp. 157–87).

Equally critical to the conservative regime was the existence of the LDP as a single electoral vehicle for conservative supporters — both voters and interest associations. The uninterrupted, long-term, single-party rule by the LDP and its predecessors meant conservative control of all the prime ministerships and all but a tiny handful of cabinet posts from 1948 until 1993, the longest period of uninterrupted conservative rule among the industrialised democracies. Long-term conservative dominance of the executive and legislative branches also meant that Japan’s conservatively-oriented politicians, pressure groups, government officials and voters had every incentive to work out their differences within the confines of that party rather than looking for choices presented to them by any potential alternative.

Also institutionally critical to the conservative regime was Japan’s unusual electoral system. As has been well chronicled, elections for Japan’s Lower House were carried out under a comparatively unusual, multimember, single-ballot system. The system had at least three critical consequences. First, the system made it necessary for any party that wished to gain a parliamentary majority, generally only the LDP, to elect more than one candidate per district. This minimised the importance of the party label as a device in generating voter support. It also reduced party control over individual parliamentarians and enhanced the
importance of strong personal support bases — that is, the constituency-based and personal-electoral machines known as *kenkai* (see, for example, Curtis 1971; Kobayashi 1991). These, in turn, were groups that had diverse memberships with typically diverse economic interests.

Second, the system made it possible to win a seat with as little as 15–20 per cent of a district’s total vote, enhancing the viability of candidates from small niche parties that appealed to narrow constituencies but had little chance of winning more than 10 per cent or so of the national vote. This in turn contributed to the ongoing fragmentation of opposition to pro-governmental candidates.

Third, intra-party competition also made it possible for voters to cast their ballots ‘against’ a particular conservative candidate without that vote being registered as a vote against the conservative party as a whole. In numerous instances, a defeated conservative seen as ‘too old’, ‘too corrupt’ or ‘too linked to the present government’ would be replaced by a younger, ‘cleaner’, ‘more dynamic’ individual who was also a member of the LDP. Quite typically, 10–15 per cent of the successful LDP candidates were such ‘new faces’, but roughly the same number of conservative parliamentarians would be returned to office. In short, the electoral system meant that voter protest could be contained within the party’s existing structures; voter dissatisfaction under such a system did not necessarily translate into LDP defeat, the way it would under a single-member district system or strict proportional representation. Systemically, it was relatively easy to vote against individual conservatives but difficult to translate such opposition into a vote against conservatism (or the LDP) as a whole.

Economically, the most striking institutional trait of the regime was its cohesiveness. Individual manufacturing, financial, and distribution firms were linked to one another through webs of vertical and horizontal *keiretsu* ties. These were bolstered by a variety of sectoral cartels, extensive cross-holding of stock shares, numerous trade associations, powerful national business organisations, and a host of other similarly unifying institutions. Such ties by no means eliminated the differences of interest found between small and large firms, exporters and importers, manufacturers and financial institutions, specialised producers and producers of commodities, or the differences among various economic sectors or specific companies. Yet, such institutional linkages went a long way toward mitigating such divisions. They also pressed for the resolution of such differences at levels below that of the national political agenda.
Moving to the second element of any regime, the socio-economic coalition undergirding conservative rule was by no means restricted to the narrow triad of big business, bureaucracy and the LDP, important as these were to conservative rule. Rather, the dominance of Japan’s postwar conservatives rested on an alliance that also included the far more numerically significant constituencies of small business and agriculture, so critical to the electoral success of the LDP. Japan’s conservative socio-economic coalition represented an unusual combination in comparative terms, although Italy’s Christian Democrats and, to a lesser extent, the French Gaulists were broadly similar. Rather systematically excluded from this dominant coalition was organised labour (Pempel and Tsunekawa 1979). Such power as organised labour eventually garnered was restricted largely to the factory level rather than to the political level and was tied to the widespread nature of Japan’s enterprise union structure.

Finally, turning to the third component of the conservative regime, the policy directions taken by the conservative coalition were relatively consistent on several key dimensions that produced a phenomenon that might be labeled ‘embedded mercantilism’. A succession of the postwar Japanese governments focused on stimulating high economic growth in a nationalist effort to ‘catch up’ to the more advanced economies of the world. These governments also eschewed any substantial social welfare role for the state. Meanwhile, security and defense policies tied Japan to the US security system, allowed US troops to remain at bases on Japanese soil, relied on the US nuclear shield, and kept the size and expenditure for Japan’s indigenous military forces quite small. From the 1950s into the middle of the 1980s, Japan thus emerged consistently as the OECD country with the most rapidly growing economy, the smallest and least expensive government, and one of the lowest levels of military spending as a percentage of GNP.

Of particular importance to Japan’s conservative regime, both in terms of holding its socio-economic coalition intact and of advancing national economic competitiveness was the conservatives’ longstanding ability to insulate large segments of the domestic economy from foreign competition while at the same time enjoying an electoral politics that insulated economic policies from Japanese voters. As I have argued elsewhere, the Japanese government bureaucracy served as the doorman determining a great deal of what came into and what went out of Japan (Pempel 1978, p. 157; see also Mabuchi 1994, esp. pp. 323–7). Japan bought few foreign-made consumer or manufacturing goods; instead, its foreign purchases were heavily concentrated in raw materials and other inputs to Japanese manufacturing, giving Japan one of the most skewed import-export balances in the industrial
world. Similarly, Japan’s capital market was long buffered from world capital markets, allowing currency policies that maintained an undervalued yen which in turn enhanced export competitiveness, as well as monetary policies that gave strong control over capital to the Ministry of Finance through the Bank of Japan and the large city banks. Meanwhile, foreign direct investment in Japan was simultaneously impeded by the Foreign Exchange and Control Law. Despite various liberalisations, as late as the 1980s, Japan was a country almost devoid of significant foreign direct investment.

Keeping at bay competition from the outside world’s often more competitive products and more capital-rich, technologically and managerially sophisticated firms meant that products produced by indigenously-owned firms came to dominate Japan’s expanding home market. Eventually, these products and the broader industrial structure gained sufficient strength to compete effectively in markets overseas, and, later, as Japan’s markets were opened, most continued to profit despite foreign competition at home.

The system also meant, however, that Japan’s individual consumers bore the high costs of such insulation. As Samuels has argued, Japan’s economy was one in which the consumer existed for the benefit of the manufacturer rather than the other way around (Samuels 1989, pp. 625–46). Oligopoly and cartelisation meant higher price levels that responded only sluggishly to market pressures; household saving rates were high to compensate for, among other things, the underdeveloped set of social benefits, but the interest rates paid on these savings were oligopolistically set and typically generated negative rates of real return to savers.

The party system offered little opportunity for national economic policies to be the subject of electoral contestation or voter protest. As noted, the electoral system worked against ‘either/or’ decisions among parties. Furthermore, the major opposition party, the Japan Socialist Party, rarely presented viable economic alternatives to conservative policies; rather, its arguments and voter appeals were made largely on issues of security, defense, the constitution and foreign relations, particularly ties with the United States. In this sense, too, Japan’s mercantilism was deeply embedded since the electoral system provided no serious alternatives to the economic policies of the conservative regime.

In fairness, citizens had considerable reason not to bemoan the electoral limitations. With growth at rates double those of the OECD countries as a group, most Japanese citizens could typically anticipate continued improvements in their personal economic circumstances. And with unemployment exceptionally low, and the overall equality of income levels in Japan...
exceptionally egalitarian. Japan lacked a substantial body of citizens who could claim they had been demonstrably hurt by the overall conservative policy profile.

The regime was thus heavily buffered from domestic voter pressures as well as from economic pressures from foreign competition. Hence. Japanese government and business leaders could pursue macroeconomic policies with their eyes fixed primarily on domestic political and economic issues. This meant policies that domestically were most likely to help them retain their electoral and political dominance. So long as these generated high growth, they functioned to keep the domestic coalition intact and to help the dominant party retain its grip on office.

Regime under challenge

From the 1970s into the early 1990s, the smoothly functioning regime described above confronted a host of challenges. First were challenges from the international arena, such as those represented by the two international oil shocks, Nixon’s reversal on China policy, the breakdown in Bretton Woods, foreign governmental pressures for a liberalisation of trade and investment conditions within Japan, and the continuous escalation in the value of the Japanese currency. Second, there were challenges primarily endogenous to Japan. Certain of these, including the rather rapid appearance of the antipollution and student protest movements in the late 1960s, various media revelations of political corruption among key politicians and radical economic shifts such as those caused by sudden inflation or changing land prices were largely external to the regime itself. Other endogenous challenges came from the changing character of the Japanese population. Many of these exacerbated tensions within the regime. Some of these challenges were sharp, severe and largely unpredictable; others were slower to appear, more gradual in their impact, but often, as a consequence, subject to reasonable anticipation. Both, however, provided serious challenges to established pillars of the old regime.

For the most part, from the end of the Allied occupation until the early 1970s international influences on Japan had been preponderantly benign and supportive of Japan’s conservative regime and its embedded mercantilism. Particularly critical was the broad support Japan received from the United States which treated Japan as a critical Cold War ally with a vanquished economy deserving of special assistance in both economics and security.
The international environment became drastically less hospitable by the early 1970s. From then on, external conditions posed serious threats to Japan’s conservative regime.

To understand Japan’s current regime shift, two of these external challenges were especially momentous. First, a mixture of challenges was posed to the autonomy of Japanese monetary and currency policies. Second, foreign trade partners, but the United States in particular, began hammering for changes in a variety of Japanese institutions and policies on the grounds that these tilted the international economic playing field unfairly in Japan’s favour.

The challenges to Japanese monetary and currency policies began in the early 1970s and returned regularly in later years. As a result, the Japanese government lost much of its ability to determine the value of the Japanese currency. The yen underwent four cycles of major appreciation: at the time of Bretton Woods in 1971–73, in the late 1970s, in the mid-1980s, and in the early 1990s. The yen climbed from ¥360 to ¥290 to the dollar between 1971 and 1974, from ¥290 at the beginning of 1977 to ¥170 by October of 1978, to ¥110–120 as a result of the G-5 Plaza Accord of September 1985, and to just below ¥80 to the dollar in 1995 (Lincoln 1988, pp. 252–65). This sequence of escalations made the yen by far the industrial world’s most appreciated currency over the period from the Bretton Woods breakdown in 1971 into the early 1990s (see also Bergsten and Noland 1993, pp: 15, 233).

On trade and investment, pressures from the United States initially focused on Japanese reductions of tariff barriers, import quotas and various non-tariff barriers. A series of GATT rounds led over time to a rapid reduction in Japan’s formal restrictions. When such reductions failed to reduce the bilateral US–Japan trade deficits, US pressures became increasingly sector-specific (Destler, Sato and Fukui 1979). For some sectors — most notably steel, machine tools, televisions, automobiles, and later computer chips — the United States demanded so-called ‘voluntary export restraints’ (VERs) by Japan. Later, driven by a variety of domestic interests, American policy eventually moved less toward blocking or restricting Japanese exports to the United States and more toward opening the Japanese market. These steps included the MOSS (market-oriented, sector-specific) talks, endorsed at a bilateral summit meeting in January 1985; the so-called Structural Impediments Initiative that commenced in 1989; explicit efforts at ‘managed trade as a second-best alternative’, such as were embodied in the bilateral Semiconductor Trade Agreement set to run from 1986 to 1991; and the Framework Talks, the all-time peak of bilateral acrimony where talks actually collapsed in February 1994.
The US government also mobilised US trade law and other weapons to exert pressure on behalf of specific US companies or regions including cell phones for Motorola; supercomputers for Cray; tobacco, auto and medical technology efforts for entire sectors; the Florida citrus industry; Washington apple growers; and New York wine merchants, among others (Kusano 1984). In short, the United States, and to a lesser extent European governments, mounted steady pressures for Japan’s conservatives to make substantial changes across a wide swath of the entire political and economic regime (Watanabe 1985, p. 258).

Interlaced with these external pressures were a variety of internal challenges to regime continuity. Among the most important were a series of demographic changes that arose primarily from the very successes of earlier Japanese economic policies. These put pressure on both the socio-economic coalitional arrangements and the public policy profile of the conservative regime. Four were especially important: one, the reduction in the proportion of the population dependent on farming from about 50 per cent at the end of the Second World War to just less than 6 per cent by 1994; two, the vast extension in expected life spans (between 1950 and 1995 male life expectancy rose by 27 years) accompanied by a zeroing of the population growth and a consequent flattening out of the population pyramid; three, a tightening of the labour supply due both to declining birth rates and to the shrinkage in the flow of former rural residents moving to the cities; and four, overall urbanisation and an increase in living standards, which combined to turn the bulk of Japan’s citizens into what Murakami has called ‘Japan’s new middle mass’ (Murakami 1984).

With varying undulations, this combination of pressures and changes induced a host of adjustments in Japan’s conservative regime over a period of 20-odd years. For the most part, the adjustments involved shifts in policy aimed at coping with new international and domestic conditions in ways that would continue economic prosperity and asset appreciation without undercutting the institutional and socio-economic base of Japan’s conservatism. At the same time, many were aimed at reducing the electoral vulnerability of the LDP. And, to a large extent, many of these adjustments served effectively to reinforce the positive cycle of high economic growth and continued conservative governance.

Thus, Japanese manufacturing underwent a successful transformation from its high dependence on increasingly expensive imported oil to alternative energy sources with only temporary inflation and almost no serious slowdowns or job losses, unlike the economic crises that prevailed throughout most of the industrialised world.
Over 20 years of fiscal austerity gave way to deficit financing during a large part of the 1970s. Japan’s deficit dependency ratio had been just over 4 per cent in 1970 but rose rapidly to the 11–16 per cent range for 1971–74, and finally up to nearly 40 per cent in 1979 (Yamamura 1985, pp. 497–8). Part of this deficit program was linked to the introduction of a series of social welfare programs and environmental improvements during the 1970s. These in turn had beneficial effects on the LDP’s popularity while at the same time dealing with the problem of Japan’s greying population. With the ‘administrative reform’ program, fiscal austerity was once again reintroduced in the mid to late 1980s, as was an overall containment of the escalating entitlement costs of new retirement and medical programs, another adjustment with many positive economic benefits. In these and many other ways, responses to certain external and internal pressures had the effect of continuing and/or enhancing Japan’s overall economic competitiveness.

At the political and electoral level, the conservatives also showed considerable adeptness. For example, the labour movement, which contained roughly one-half of the workforce in the 1950s and pressed a variety of radical challenges to conservative rule, was by the late 1980s virtually halved in its penetration rate and reorganised into a single peak federation with a largely non-political, non-governmental economic agenda (Ikuo 1988, pp. 659–87; Shinkawa 1984; Tsujinaka 1987, pp. 47–72). Also pacified were the country’s student movements and its anti-pollution citizen groups.

Electorally, despite the numerical shrinkage of several key blocs of party supporters, such as farmers and owners of small businesses, the party began to attract support from other, once less-supportive groups. Thus, as labour became pacified, the electoral orientations of blue-collar workers began to shift as well, with significant proportions voting for the LDP (Satō and Matsuzaki, 1986; Miyake 1985). Moreover, by the 1990 elections, the LDP was also drawing substantially more of its votes from urban constituencies than it had in the early 1970s (Kobayashi 1991). Importantly, however, policy changes designed to attract new supporters and to broaden the socio-economic support base of the conservative regime did not force the LDP to drop any of its longstanding support groups. Rather, the party’s basic approach involved enticing and incorporating new groups while protecting the interests of long-time supporters. The party became a ‘catch-all’ party in many ways. As a result, by the 1990s, the party was drawing substantial strength from socio-economic groups that had not been core components of its originally successful quest for office in the 1950s.
The result was that, although the conservative party confronted several close elections during the 38 years of its reign, until the loss of Upper House control in 1989, elections in themselves posed little serious challenge to the regime. Having beaten off the more sustained challenges from the left during the 1950s and early 1960s, the LDP never faced more than fragmented electoral opposition in the subsequent two decades.

At the same time, not all of the adjustments redounded to the benefit of the conservatives. Many in fact exacerbated internal tensions within the conservative regime, most particularly among its different socio-economic supporters, but also in the policy and institutional arenas.

For example, overall economic success and the lack of major party opposition to the LDP did not automatically mean that the Japanese population was becoming increasingly loyal to the party. Rather, more and more voters began to identify themselves as independents and as non-party voters (Miyake 1989, 1995; Kobayashi 1991; Curtis 1971). As early as 1974, such ‘non-party’ identifiers came to outnumber supporters of the LDP. This growth in non-partisanship was most especially noteworthy among those in their twenties and thirties, women, and long-time city dwellers (Muramatsu et al. 1992, p. 126; Kobayashi 1991, pp. 52–9). In many elections, LDP candidates were able to garner support from this bloc, but its loyalties were typically quite fickle.

Throughout even its best moments, the conservative regime was beset by the usual miscellany of internal conflicts of interest — divisions over spoils, turf, personal power, policy content, or cold hard cash, to mention only some of the most obvious. Nevertheless, when it was working at its best, the regime’s constituent elements interacted with relatively low levels of internal friction, particularly when these were compared to the tensions between the regime and its opponents.

High national growth rates and LDP control over the Diet and the cabinet were obviously critical ingredients in ensuring such smoothness. High growth had long prevented otherwise internally conflictual economic and political interests from fracturing surface level conservative cooperation. Continually expanding assets greatly facilitated congeniality between technologically sophisticated and relatively backward industries, importers and exporters, finance and manufacturing, urban and rural interests, and otherwise fractious bureaucrats, business leaders and politicians. Continued economic growth diverted attention from foreign policy or security concerns. Conflicts that might have become zero sum under less expansive economic conditions were more readily reconciled through side payment, compensation, and
trade-offs to particular interest groups, voting blocs, or geographic regions. As Kume has suggested, the rough edges within the regime were sanded down by economic resources that allowed conservatives to follow a ‘politics with no losers’ (Ikuno 1992).

Yet, high growth and LDP electoral dominance masked the fact that large segments of the Japanese economy were in fact insulated from the pressures that would have ensured substantial modernisation, and these remained highly non-competitive by international standards. No substantial institutional changes were made to ensure economy-wide changes that would build in long-term national competitiveness across different economic sectors. Also masked was the fact that the challenges and adjustments noted above were generating and exacerbating a host of previously latent divisions among LDP supporters. Only toward the end of the 1980s did this mixture of economic and political tensions within the conservative regime come to the fore, as national economic growth slowed from its hyper-kinetic 10–11 per cent rate (1952–71) to more modest 5–6 per cent growth (1971–89), and then to zero–to–very–low growth (1990–95), as the LDP’s hold on office became less automatic and as foreign policy disputes wedged themselves onto the national agenda.

The continuation of once relatively easy intra-regime adjustments became increasingly problematic as the currency’s value appreciated, as fiscal policies shifted, as demographic changes occurred, as the Americans targeted various sectors of the Japanese economy, as LDP politicians began to draw their support from different constituencies, and, most importantly, as the economy slowed. Erstwhile allies discovered that their respective approaches to the new challenges were incompatible; solutions favourable to one group could very well undermine the powers and privileges of another. The selection of particular policies became ever more nettlesome for conservative officials.

Whereas the outer boundaries of the conservatives’ socio-economic coalition had been expanded by simple addition of new groups during the 1970s and into the early 1980s, by the end of that decade, many public policies and institutional arrangements began to necessitate harder choices among potential supporters. Japan’s conservative regime found itself attempting to accommodate ever more demanding and strange bedfellows in an ever-shrinking futon.

**Regime shift**

Since the last years of the 1980s, Japan has been undergoing a fundamental shift along all three of the dimensions that constitute a regime. In brief, the public policies and institutions of the
past have proven incapable of providing the kinds of benefits — political and economic — that they once did. Simultaneously, a number of once highly integrative economic and political institutions have been unraveling, leaving important components of the past regime far less well connected to one another and far freer to form and enter new allegiances. And, finally, the socio-economic arrangements so critical to the coherence of the prior regime have become splintered. Potential winners and losers are more quickly differentiated as new policy alternatives are proposed and as institutions are rearranged. In short, the conservative regime has become far more fragmented by internal political differences that are shattering its previous facade of minimal internal differences, eliminating its coherent front, and preventing it from marching forward in some collectively shared direction.

One of the most important challenges to existing economic policies and to internal conservative cohesion came in the form of the rapidly rising yen. Endaka, as it was known, made it economically suicidal for many Japanese firms not to invest abroad. Continuing to manufacture at home became comparatively more costly in yen terms. In effect, the rest of the world’s land prices, labour rates, and corporate valuations had been slashed by one-half or more. Business leaders regularly asked themselves: how can we best take advantage of this?

Foreign direct investment by Japanese firms in the mid–1960s had been minuscule, as noted above. Yet, in 1980, as a result of combined external and internal pressures, Japanese financial markets had been substantially liberalised, particularly with the revision of the Foreign Exchange and Control Law (1980). Combined with the rising yen and a vast improvement in the facility with which international capital movements could be transacted, this revision allowed, among other things, far freer movement of capital from Japan. By 1996 cumulative Japanese investment abroad totalled nearly US$500 billion, making Japan the world’s second-largest overseas investor. In the process, Japan had also become the world’s largest creditor.

In the late 1970s Japanese investors accounted for 6 per cent of direct investment outflows from the major industrial nations, 2 per cent of equities outflows, 15 per cent of bond outflows, and 12 per cent of short-term bank outflows. By the late 1980s, these figures had swollen to 20 per cent of international foreign direct investment, 25 per cent of equities, 55 per cent of bonds, and 50 per cent of short-term bank loans (Frieden 1993, p. 434). Individual Japanese firms were also largely freed to engage in foreign direct investments abroad. By the middle of the 1990s, Japan had become the world market’s major supplier of capital.
Simultaneously, there was an overall decline in the role of main-bank financing for corporations, which in turn had important effects on the cohesion of the *keiretsu*. During the 1960s Japanese firms had raised the bulk of their needed capital through borrowing, primarily from the so-called main banks. The debt-to-equity ratio average for Japanese firms was as high as 80 per cent during the 1960s. By the early 1990s, this had fallen dramatically to 25 per cent (Campbell and Hamas 1994, pp. 331–3). This too reduced the internal cohesion among the *keiretsu* while at the same time allowing individual firms, whether *keiretsu* or not, far greater autonomy in their overall business strategies. Individual Japanese companies and financial institutions were, in the mid-1990s, free to issue bonds abroad in whatever was the most suitable currency and then swap the proceeds into yen. Their dependence on financing from home-based banks diminished sharply.

By the 1990s large numbers of Japanese manufacturing firms were basing their activities less on production in, and export from, Japan and far more on truly international production and global investment strategies. The simple export orientation of Japanese economic policies diminished considerably. From 1990 to the first quarter of 1996, Japanese exports grew by only 4 per cent, the lowest rate in one 12-country OECD survey. (During this period, eight countries had export growth of 25 per cent or more.) Conversely, Japanese imports grew by 41 per cent, the third largest figure in the survey (*The Economist*, 23 November 1996, p. 11). Even more symbolically, in 1995 Japan manufactured more overseas (¥41.2 trillion) than it exported from the home islands (¥39.6 trillion) (*Far Eastern Economic Review*, 4 July 1996, p. 45).

This increase in overseas activities along with revisions in the Foreign Exchange and Control Act also liberated many Japanese companies from previous governmental controls. Once subject to heavy oversight from the Ministry of Finance and the Ministry of International Trade and Industry designed to ensure conformity to various government industrial plans, overseas firms became freer to pursue their desired business strategies unconcerned about the club of government capital controls. Technology transfer agreements leaped across national boundaries with nary a governmental signature. The capability of firms to raise capital through the domestic equity markets, overseas warrants, international currency swaps, and the like left them far freer to pursue strategies determined primarily by internal, company-specific needs rather than external government directives or national industrial policy prescriptions.
Many Japanese firms, including many subcontractors, added to the multinational character by forging strategic alliances with foreign-owned firms. Among the Japanese firms that forged partnerships with foreign firms were Toyota and Nissan in auto manufacture; Fujitsu, NEC, Hitachi and Toshiba in electronics; Nippon Telegraph and Telephone (NTT) and International Telegram and Telephone (KDD) in telecommunications; Softbank and TV Asahi in software and commercial television; and Mitsubishi Heavy Industries, Kawasaki Heavy Industries and Ishikawajima Harima Industries in a variety of military production technologies. Indeed, Canon went so far as to adopt as its corporate vision for the 1990s the slogan ‘Symbiosis with Global Partners’ (Teramoto et al. 1994, p. 82). The very ‘nationality’ of many Japanese firms became more confused, in terms of ownership but more importantly in terms of the place and nationality of the workforce. This too undermined previously embedded mercantilist orientations on the part of at least some Japanese companies, softened their ties to the keiretsu, and reduced the leverage of the Japanese government over much of their economic behaviour.

Even though such internationalisation was taking place in many segments of Japanese business, it was by no means universal. Other firms in traditional industries such as cement and construction, which were deeply enmeshed in domestic public works projects and tied to the patronage of Japanese politicians, were either unable or uneager to invest abroad. Similarly, while certain subcontractors of Japan’s larger manufacturers did follow them in setting up overseas operations, far more, particularly the smallest, remained in Japan, typically losing significant market shares. The resulting ‘hollowing out’ of Japan led to more enhanced demands for protection from foreign competition. And to ensure political support for such protection, increasingly substantial sums of money were transferred to the pockets of conservative politicians.

Finally, many of the most protected industries, including those within important service sectors such as insurance, brokerage houses and even many commercial banks, remained unprodded by the need to compete internationally and essentially locked into the highly regulated and cartelised domestic market, a factor that contributed heavily to the financial crisis of the 1990s (Noguchi 1992, pp. 1–21).

As big business divisions were showing up within conservative ranks, so too the retention of conservative loyalty among farmers and small business owners had also become problematic by the late 1980s. The ability of the LDP to retain its hold on the disparate support of such groups had long rested on continually high economic growth, the relative insulation
of the Japanese market from outside investment and imports, and a series of specific side-
payments in the form of farm subsidies, import quotes on key agricultural goods, low or no-
interest loans, and an ‘anti-big-store law’ that effectively gave chambers of commerce veto
power over the siting of large department stores or distribution outlets. The influence of
virtually all of these was reduced during the late 1980s and into the early 1990s; budgetary
support for agriculture and small business in particular declined substantially as a per cent of
the total budget (Okurasho, various years).

Many voices within the conservative camp had long echoed the calls from the United
States and other foreign countries for a greater liberalisation or deregulation of many of
Japan’s least competitive sectors. These voices were most typically from Japan’s most
internationally competitive firms, eager to prevent retaliatory international protectionism from
being mobilised against Japan’s cameras, autos, VCRs, semiconductors and financial
services. They also were now reflecting their own enhanced international competitiveness and
the diversity of their own supplies and markets.

In short, by the late 1980s and early 1990s the international situation was no longer so
uniformly positive for the Japanese conservative regime. Nor was economic growth so
automatically guaranteed. As a consequence, the Japanese conservative regime once held
together through positive-sum politics began to confront a zero-sum situation: not all
economic supporters of the conservative regime continued to view their interests in
compatible ways. And those who were losers on one issue could no longer count on quick
and relatively painless compensation from an ever-expanding public treasury on the other.

Increasingly, actions designed to benefit one segment of the LDP’s socio-economic
support groups often meant the loss of benefits by another. An upwardly biased yen plus
economic liberalisation were driving a wedge between the close collaboration between
agriculture, small business and big business as well as between specific sectors of big
business, all of whom in the past had been so centrally a part of conservative electoral and
policy hegemony.

It is within this context that the Japanese bubble gains perspective. At least two elements
are critical. First, as the yen continued to rise in power, particularly after the Plaza Accord,
the Ministry of Finance, fearing the effects on Japanese exports, ‘ordered the Bank of Japan
to open the monetary floodgates while the ministry injected massive amounts of fresh
spending into the economy via fiscal packages and the expanded investment of postal savings
funds ‘ (Asher 1996, p. 2). Predictably, as the prime interest rate was lowered to a postwar low of 2.5 per cent, asset markets in both stocks and land jetted upward.

Second, and equally important, was the severing of the links between major manufacturing firms and the main banks and financial institutions noted above. Cut off from their normal sources of income (corporate borrowers ), Japanese financial institutions began to lend to less solid borrowers — smaller subsidiaries, less fiscally sound firms, land speculators and, of course, organised crime. And in the course of these activities and the subsequent bursting of the bubble economy, it became increasingly clear that while the Japanese economy had a number of exceptionally competitive firms in areas such as automobiles, electronics, cameras, machine tools, precision instruments and the like, Japan’s financial institutions — its banks, brokerages and insurance companies — were among the most protected and least internationally competitive institutions in the country.

A certain measure of privatisation and deregulation had undoubtedly taken place in several sectors during the 1980s and early 1990s. Moreover, once-nationalised industries such the Japanese National Railways (JNR), NTT, KDD and the Tobacco and Salt Monopoly were privatised. Other industries such as the airlines, the finance sector and various pension systems had undergone-varying degrees of deregulation (Otake 1994, pp. 78–161 ). Despite all these changes, however, the Japanese market remained largely closed to foreign direct investment. As late as 1994, inward foreign direct investment was roughly US$3,400 per capita in the United Kingdom, US$2,200 per capita in France, US$1,700 in the United States, US$1,500 in Germany, but only US$135 per capita in Japan. Japan’s economy was between one-tenth and one-twenty-fifth as penetrated by foreign capital and firms as the other major OECD countries.

Certainly, banking and many other sectors remained highly regulated, cartelised and internationally non-competitive. The fact that the Japanese financial sector had amassed a tremendous number of bad loans was but the most tangible manifestation of this lack of true competitiveness. Problem loans in November 1995 totalled ¥37.4 trillion, of which ¥18J trillion was deemed unrecoverable. This meant that an average of 6 per cent of the loans outstanding by private-sector banks were bad (Asher 1996, p. 10). The Ministry of Finance sought to cover up the extent of the financial problem only to find that the good faith and credit of all Japanese banks fell heir to international criticism of their attempted cover-up: in June 1995, Moody’s, the international rating service, downgraded the credit worthiness of Japanese banks to an average rating of ‘D’ (uncertain), and international money markets began
to impose a six-tenths of a per cent premium (known as the Japan Premium) on the cost of short-term funds for Japanese banks (Asher 1996, p. 11).

Ultimately, the Bank of Japan dropped the national discount rate to absurdly low levels (0.5 per cent at some stages), in effect providing a mechanism by which Japanese savers would receive negative returns on their money while the failing banking sector could recoup some of its losses through low-cost international arbitrage. Similarly, the government attempted a series of unsuccessful stimulation measures through the public works budget, with large sums for bridges, ports and new lines on the Shinkansen. But the results were dismal.

Japan’s conservatives, by the middle of the 1990s, had shown that they were incapable of recreating the spectacular economic policies and performances that their predecessors had overseen up until only a few years earlier. The fanatical wave of self-confidence witnessed in Japan in the late 1980s proved to be like the euphoria of Icarus soaring toward the sun — just before his wax wings melted.

Once the bubble economy burst, the capacity to reward inefficient sectors out of the public treasury was drastically reduced or made politically problematic, allowing intraconservative economic tensions to reverberate into the political arena. Most tangibly, the long-ruling LDP split in July 1993 and its 38-year control of government gave way to a series of coalitions and party reorganisations. In addition, a new electoral system for the Lower House of the Diet was introduced that injected further uncertainty and division into the ranks of conservative parliamentarians.

The party had split over two immediate and related issues — political corruption and the call for a new electoral system. But these in turn were linked to several deeper issues, most notably the introduction of the consumption tax in 1989 and the LDP defeat in the Upper House election of that year; in turn, these were tied to the changing character of the Japanese voting population and the long-term stagnation in the national economy.

One of the little-noticed effects of Japan’s bubble economy was that it began to divide Japanese citizens along economic lines in ways that the previous regime had been able to avoid. The rapid growth, based as it was on escalating land and stock prices, no longer benefited ‘all citizens equally’ as had been generally true of earlier high growth. Rather, those with land or stocks got rapidly richer; those without quickly fell behind. Japan’s Gini index, a measure of income inequality, showed increasing disparities of income. Those left behind by the bubble became resentful of a high growth that excluded them. And then, when the bubble burst, there
was no loss of political resentment among those members of the *nouveau riche* whose wealth had dropped most sharply.

The consumption tax was something the Ministry of Finance had been eager to institute for a decade or more. Of particular concern was its desire to put into place a system that would ensure long-term fiscal stability and allow the ministry to avoid the issuance of deficit-covering bonds such as had occurred in the 1970s and early 1980s. These in turn would lead to higher long-term interest rates, lower profitability for financial institutions, increased costs to firms borrowing to expand and develop, as well as an overall reduction in Japan’s external surpluses.

The consumption tax, despite the fact that it meant an actual reduction in the total tax burden of many urban salaried workers, was wildly unpopular. Farmers and owners of small businesses were almost certain to see their tax bills increase. Many consumers were irate at paying such a visible tax on virtually every purchase they made, regardless of whether their ultimate annual tax bill would rise or fall.

The 1989 Upper House election took place in the midst of widespread voter frustration with the consumption tax, agricultural liberalisation, the opening of the market to large distribution outlets, and a variety of money and sex scandals associated with Prime Ministers Takeshita Noboru and Uno Sosuki. The results were devastating to the LDP, which was denied a majority of seats for the first time since the party’s formation in 1955.

Corruption scandals were hardly new to Japan or to the LDP, but the ‘recruit scandal’ (1988–89) which forced Prime Minister Takeshita to resign made it unmistakable that a massive amount of money had come to suffuse electoral politics, and that it did so in part as a means of bypassing the normal processes of bureaucratic regulation of the private sector.

Similarly, in the subsequent Sagawa Kybin case, long-time political godfather and LDI Deputy Prime Minister Kanemaru Shin was arrested on 27 March 1993, in conjunction with a payoff of ¥500 million from an up-and-coming trucking company hoping for special treatment from transportation regulators. The Kanemaru scandal made particularly good television coverage when some US$50 million in gold bullion was discovered in the raid by public prosecutors of his office. The two scandals led to massive criticism of ‘money politics’ and ‘politics as usual’ in response to revelations of the deep and systematic levels of corruption (Johnson 1995, p. 224).

Keidanren, increasingly frustrated with the closed economy and the LDP’s protectionism to begin with, also began to demand electoral reforms. It underlined its call by refusing to
provide campaign funds for LDP factions. The media were also aggressive in their demand for structural overhauls to clean out the Augean stables of Japanese electoral politics.

Further complicating the political situation was the Gulf War and US demands for a more active role by Japan in peacekeeping operations. Japanese conservatives were racked by internal debates about the possible dispatch of troops in ways that had not divided the party since the late 1950s and early 1960s. Following a wrenching domestic debate, Japan in 1991 passed legislation that allowed its troops to be used, under very constrained conditions, in UN-sponsored, non-combat peacekeeping activities abroad (The United Nations Peacekeeping Operations Cooperation Bill). As a result, Japanese minesweepers moved into the sea lanes within the Persian Gulf after the fighting between the United States and Iraq had ended. Moreover, Japanese military personnel were sent to participate in UN peacekeeping operations (PKO) in Cambodia and subsequently in several other locations. Under all previous interpretations of Article IX of the constitution, such actions would have been clear constitutional violations. None would have been politically possible in the middle of the 1960s. The Gulf War catalysed within the conservative camp, and the country more broadly, wide-ranging debate about the entire spectrum of Japanese defense and security, issues that had for the most part been smothered under the consensus around high economic growth, low military expenditures and a broadly ‘pro-American’ foreign policy, that had prevailed since at least the Ikeda administration (1960–64).

Consequently, conservative political cohesion gave way to various divisions over several specific issues. A number of politicians, starting with Hosokawa Morihiro, who eventually formed the Japan New Party, began to demand internal reforms within the LDP. Specific concerns with eliminating corruption became linked internally to the introduction of a new electoral system. And these in turn were linked to divisions over security. Ironically, Ozawa Ichirō, himself a close ally of Kanemaru and a major recipient of monies from Sagawa, jumped on the ‘reform’ bandwagon and called for what many conservative politicians had long hoped for: a replacement of Japan’s multimember electoral system with some version of a single-member district system and Japan’s movement on security issues toward the status of a ‘more normal’ country. When LDP Prime Minister Miyazawa Kiichi failed to deliver on electoral ‘reform’, Ozawa and his followers, along with several other groups of LDP dissidents, left the party, paving the way for the anti-LDP coalition that ended the LDP’s longstanding parliamentary hegemony.
What had become clear to many individual LDP politicians was that loyalty to the party no longer provided a vehicle guaranteed to enhance one’s personal career. The party’s loss in 1989 showed its vulnerability. The wave of anti-LDP sentiment associated with the corruption scandals make it clear that association with the party had serious downside risks. And many conservatives were genuinely divided on matters of security and foreign policy. In particular, many younger urban conservatives determined that it made little sense to plan their political careers around a lifetime of membership in a party that seemed committed to economic policies hostile to the nation’s urban dwellers and detrimental to long-term economic growth. To many conservative parliamentarians, leaving the party suddenly offered the possibility of presenting oneself as a more attractive, principled and electable alternative.

As party politics fragmented, so did the once-close ties between cabinet and bureaucracy. Long tradition had kept promotions and retirements within the Japanese civil service more or less insulated form direct political interference (although this non-interference had a strongly pro-LDP guarantee). But on 16 December 1993, a member of Ozawa’s New Frontier Party, Kumagai Hiroshi, took over as Minister of International Trade and Industry and, as one of his first acts, forced the retirement of a prime candidate — Naito Masahisa — for the highest non-political position in the ministry. Clearly, this was an explicitly partisan effort by the new, non-LDP government to shatter one of the key institutional arrangements of the previous conservative regime — that is, a ‘non-partisan’ treatment of all bureaucratic promotions.

Simultaneously, the bureaucracy was shaken by revelations that various top-level bureaucrats had been active participants in the various bribery scandals tainting the world of elected officials. Most significantly, at the end of 1996 the administrative Vice-Minister of the Ministry of Health and Welfare (MHW), Okamitsu Nobuharu resigned following allegations that he had been given membership in a golf club worth ¥16 million, along with other expensive favours, by the owner of a company operating a string of old-age homes that had been seeking MHW subsidies of ¥9 billion. Okamitsu emerged as just the tip of a very corrupt bureaucratic iceberg, as seven additional officials came under investigation. Okamitsu, who ironically had been appointed to the ministry’s top job in order to clean up his agency’s HIV mess, was subsequently arrested in early December, the highest-level bureaucrat ever to be arrested in the postwar years.
In short, along a host of dimensions, the conservative regime that had so successfully managed Japan’s economy and that had so effectively contested elections seemed a hollow shell of its former self. The economy seemed stuck in low. Certain individual firms prospered, but far more seemed to be hunkering down behind protectionist barriers. And, in the face of it all, the political world seemed incapable of generating policies that would shift to a higher gear, primarily because it was divided about whether to support the interests of the more internationalised segments of the economy and society, or of those who had long benefited from protection and regulation. Yet, given the inability any longer to control currency and monetary movements, important tools once critical to the government were no longer at its disposal.

Conclusion: Japan’s political economy in the 1990s

Beyond the fragmentation of the LDP, the decline of the socialists and the continual grouping and regrouping of various politicians into new parties and party fragments, Japanese political reorganisation had its most tangible institutional manifestation in the introduction of a new electoral system for the Lower House of the Diet. Under the new system, 300 of Japan’s 500 Lower House members are chosen from single-member districts. Another 200 are chosen through proportional representation contests in 11 geographically determined, and individually calculated districts. Such a system surely will bring about many changes in the party system and in the biases of elected officials.

Most clearly, however, the system will do little to aid any single party in bridging the widening economic gaps among Japan’s different constituencies, the way the old system helped the LDP to keep most economic sectors somewhat content. Under the new system, the size of single member districts is considerably smaller than the previous multi-member districts. Consequently, the localist bias in Japanese electoral politics will be enhanced, thereby encouraging representatives to take an even more ‘local’ perspective on economic policies. The kenkai of individual parliamentarians is likely to gain, rather than lose, in importance. In effect, it is highly improbable to expect that a candidate running in rural Oita or Shimane would campaign against agricultural subsidies, rural electrification projects, or special subsidies to equalise nationwide living standards, regardless of what the candidate’s party stood for ‘officially’. Similarly, it is hard to imagine two candidates in the Azabu area of Tokyo or the Umeda district of Osaka taking competing positions on such issues as the need for lower
consumer prices even if that means more foreign imports, making an argument for higher consumption taxes as a way to benefit Japan’s dwindling number of orange growers, or calling for an increase in nuclear waste disposal sites or garbage dumps within urban and suburban areas. In short, the new system is heavily biased against the articulation of clear economic policies by any single political party and is likely to minimise policy choices within specific electoral districts. The result is almost sure to be that Japan will continue to reflect the widespread dictum that ‘all politics is local politics’. And with local economic interest so increasingly diverse from one another, any single political party will find it extremely difficult to agree among its members on any clear and bold strategies for national direction.

In particular, with the electoral system biased toward local economics and pork barrel politics, it is very unlikely that any government will soon be able to generate national policies conducive to the high levels of economic growth that prevailed from the 1950s into the end of the 1980s and that in turn made broad political consensus so easy to maintain. In short, Japanese economic and security policies are likely to be far more electorally divisive in the future than they were in the past.

One possible counter to this would come from the 40 per cent of the parliamentary seats chosen by proportional representation (PR). Competition for these seats will give most larger parties an incentive to articulate broader, rather than narrower, policies calculated to appeal across local districts (although even the PR seats are not chosen nationwide, but in 11 regional districts). At the same time, the PR segment of the new system is sure to enhance the continued viability of small niche parties — as has been true of the Free Democrats in Germany, and as was perhaps reflected in the relative success of the Japan Communist Party in the 1996 election. And such parties by definition appeal to narrow and selective constituencies.

Consequently, no new Japanese government will easily paper over the fundamental tensions and the increasingly divergent interests of Japan’s various socio-economic groups. It will be exceptionally difficult for any single political party to generate policies and institutions that will bridge the wide gaps that now separate those groups in Japan that are prepared for and will benefit from an increasingly internationalised and less regulated domestic economy, and those that are desirous of continuing past protections and regulations from which they benefit. As the currency moves slightly up or down and as the international economy continues to penetrate Japan, those tensions become ever more clear-cut.

Nor is it likely that some particular economic policy, such as prevailed under embedded mercantilism, could provide the kind of broad and sweepingly general benefits that would
mobilise most segments of the economy behind it. Similarly, any changes from Japan’s security policies are likely to be highly controversial but so is a continuation of past policies. Instead, real divisions requiring real political choices are increasingly being revealed.

For the moment, political parties only vaguely hint at offering such choices. Members of the current LDP are substantially more rural, protectionist and nationalist than those of the New Frontier Party. Several of the smaller parties, including Sun and the Democratic Party, are preponderantly younger and more urban. But party platforms among all strands of conservatism are broadly consensual and totally devoid of specifics. None articulates a set of proposals that is clearly ‘internationalist and open’ or conversely ‘protectionist and closed’. Instead, all favour ‘deregulation’, ‘internationalisation’ and ‘compensation for those negatively affected’. Most also call for ‘more time’ to ‘reach consensus’.

In this sense, the system is ripe for the emergence of political entrepreneurs able to mobilise voters around their increasingly divergent interests. Yet, there is also no guarantee that the tensions that now divide Japan will readily be translated into competing political platforms offered by different political parties. Creative political entrepreneurs are surely a possibility but they are by no means guaranteed. Equally plausible, at least until the pain of inaction becomes unbearable, is a continuation of a politics of vagueness and personalism that avoids the articulation of separate and clear economic or security choices by the major parties. And, offered few appealing choices, voters certainly have the option of staying home as they did in the 1996 election. But, in such a situation, it is also unlikely that any elected government will have the capability of taking the kinds of bold measures needed to regenerate the national economy. Nor are new and substantially different security and foreign policies likely to be forthcoming.

In short, Japan is facing a choice between a regime that continues to blur the important underlying economic and security tensions reflective of real divisions of interest among Japanese citizens and one that offers such choices but runs the risk of becoming a country with far more sharp demarcations between winners and losers. What seems unmistakable is that the once-invulnerable conservative regime can no longer operate with the fluidity or internal cohesion that it once enjoyed. Rather, Japan is in the midst of an unmistakable regime shift. What will actually come to replace the ancien régime seems, as of the late 1990s, to be unclear. The process of socio-economic recombination is still underway; so is the process of party system realignment and electoral recalibration. Certain new institutions have been created; more might well appear; but the implications of such changes are still murky. And
no public policy profile with anything like the clarity of ‘embedded mercantilism’ and high
economic growth have yet come into view.

Japan, in many ways, is like the former communist regimes in the former Soviet Union
and Eastern Europe. It is clear that the old regime has been displaced, transition is underway,
but precisely how that transition will play out is less clear-cut.

The LDP might retain some measure of electoral success, but it would be a very
different LDP from its 1955 namesake in terms both of support and policy direction. Major
portions of the Japanese economy might continue to be exceptionally competitive within
world markets; indeed, corporate profits and market shares of many major Japanese
manufacturers were up substantially as the worst of the post-bubble economic debris came
to be cleared up. Yet, the former links between finance and manufacturing, small and large
firms, and exporters and importers have been broken. So have many of the old *keiretsu* ties,
Japan’s economy is unlikely ever again to be labeled ‘Japan, Inc.’. The Japanese bureaucracy
will almost certainly retain powers that in comparative terms are quite substantial, but it is
unlikely that either agencies or civil servants will command the same levels of control over
business or society as a whole, let alone the same levels of social support, as was the case
in the 1960s. Japan will almost certainly continue to maintain close strategic, military and
economic ties with the United States, but it is unlikely to enjoy the same levels of unmitigated
support from the United States that it received during the height of the Cold War; nor is it likely
that Japanese elites will themselves be anxious for such a return. What is clear, however, is
that, like Humpty Dumpty, the old regimes, in Japan or in the former communist countries,
cannot be put back together again.
The Political Economy of Reform in Services in Japan

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2. THE POLITICAL ECONOMY OF REFORM IN SERVICES IN JAPAN

Introduction

The Japanese economy has long been characterised by observers, both domestic and international, as having a leading edge manufacturing sector and a woefully uncompetitive agricultural sector. It is only recently that the Japanese services sector has come under detailed scrutiny, despite the fact that it constitutes 73 per cent of total Japanese output (MCA 1996, p. 147) and 22 per cent of total Japanese trade (IMF 1995, p. 158). The picture arising from any examination of the Japanese services sector is not positive.

In the words of MITI (Ministry of International Trade and Industry 1996), pp. 2–3):

The Japanese economy is characterized by the existence of a dual structure in which efficient manufacturers and inefficient service related sectors coexist. This is one of the main reasons for Japan’s high cost structure.

In particular, productivity is low in such key sectors as transportation, telecommunications, finance, energy and distribution. As a result, the level of consumer choice and living standards are reduced. Further, low productivity levels in these sectors act as a drag on manufacturing and other service sectors, preventing their development and lessening their international competitiveness. This feeds the hollowing out phenomenon in the manufacturing sector, and the replacement of non-manufacturing sectors by foreign service companies.

As a result, within those sectors that are not exposed to international competition, there is an urgent need to forcefully move ahead with deregulation and competition promotion policy in order to increase productivity and competitiveness.

It seems that few areas of the Japanese economy are in such dire need of reform.

To this end, the Japanese government has launched a series of policy initiatives aimed at increasing the productivity and international competitiveness of the services sector. Prominent among these initiatives are the privatisations of Japan Rail and Nippon Telegraph and Telephone Corporation (NTT); the continued deregulation of financial service industries such as banking and insurance; and moves toward freeing up the wholesale and retail industries.

A feature of almost all service deregulation initiatives in Japan is that they have been accompanied by some degree of liberalisation. From AT&T to McDonalds, foreign service
providers have been increasingly allowed into the Japanese market. These firms expand the range of services available to Japanese consumers and through enhanced competition help to reduce the prices for existing services.

Despite these initiatives, however, it is fair to say that many Japanese service industries are not yet fully contestable. Figure 1 compares the relative openness of various Japanese service industries. What is immediately apparent is that some service industries are extremely open, while others remain closed. The question for this paper is why has the process of liberalisation — widely accepted as necessary amongst Japanese policy elites — not extended to all service industries? What is it that seems to exempt certain industries from the forces of international competition?

Two answers to this question are often provided. First, the industries that remain protected are those with the political power to resist, at least temporarily, the forces of liberalisation. Alternatively, it is suggested that the industries that remain protected are ‘special’ and that other policy objectives override economic prescriptions about the optimality of free trade and investment.

If these two initial responses are scrutinised, they can be seen to equate with a distinction common in the modern literature on the political economy of protection; the distinction between interest group and statist explanations of policy outcomes. Interest group theorists favour the argument that protection is afforded to uncompetitive but politically powerful industries. Conversely, statists look for ideational factors that motivate state actors and that result in them favouring the retention of protection for specific industries.

This paper examines in some detail the interest group and statist explanations for policy outcomes. It then tests the various predictions of these theories using both quantitative and qualitative data. The results of the quantitative analysis indicate that it is essentially mature and well-organised service industries that receive protection in Japan. However, certain statist objectives, such as reciprocity and patch protection, also help to determine policy outcomes. The qualitative analysis confirms these findings using the policy experience of the Japanese telecommunications industry.

Theory

Literature dealing with the political economy of protection affecting service industries is extremely sparse. We must, therefore, draw upon the general political economy of protection
literature — in particular, the literature that examines empirically the sources of cross-industry differences in protection. This literature can be further sub-categorised into interest group and statist explanations.

**Interest group explanations**

Interest group theorists see trade policy as the outcome of political competition between pressure groups and other sectional actors (see, for example, Baldwin 1986). Policy-makers are generally conceived of as disinterested arbiters of these competing societal forces. Empirically, an interest group explanation of trade policy expects protection to be afforded to industries that have the motivation to seek protection and the political power to ensure that their demands are adopted.

In general, an industry is assumed to demand protection from international trade if it is declining in the face of international competition. Such protection will reduce imports and thus increase the returns to industry. However, demands for protection are less likely in declining industries that are highly internationalised in terms of foreign investment or exports, for fear of retribution in foreign markets (see Milner 1988). Internationally competitive firms are also assumed not to demand protection from foreign trade.

The reasons for industry resistance to foreign investment have not received much scholarly attention. Theoretically, however, it would seem that the reaction of local industry to foreign investment will depend greatly on the type of market into which the investment is flowing. Foreign investors have two major reasons for locating in a particular market: to take advantage of a growing local market or to displace existing service providers in mature markets by applying superior technology.

Foreign investment into growing markets is unlikely to have a negative impact on the local industry as it tends not to be market displacing. Indeed, it is likely to increase the returns to industry-specific labour and capital by increasing demand for these inputs. Demands for protection from foreign investment are thus less likely to arise in industries that display relatively good growth rates in output and employment.

Direct foreign investment designed to capture market share in a mature market through the application of superior technology is likely to have very different political economy repercussions. Existing industry-specific labour and capital will be displaced, resulting in significant hardship and engendering demands for protection.
Figure 1  Protection of Japanese service industries

Note: Frequency (1): the higher the score, the greater the protection afforded.

Demands for or against protection are generally assumed to be unrelated to the policies of foreign governments (see Milner and Yoffie 1989). This assumption depends upon the mobility of factors of production. In industries in which capital is mobile and multinational firms have a unique product that cannot be easily replicated by domestic producers, foreign trade barriers are largely irrelevant. The firm can either invest in the local market or in other low cost countries to circumvent the effect of trade barriers.

In industries in which key factors are not mobile, the nature of foreign trade policies substantially increases in importance (Milner and Yoffie 1989). In services, barriers to factor mobility are often the problem. It is expected, therefore, that service industries will tend to demand reciprocal access to foreign markets if they have limited capacity to avoid impediments by switching between trade and foreign investment.

Demands for specific trade policy outcomes may also emanate from forces outside the industry itself. For example, in telecommunications, there has been some indication that equipment sellers have supported continued protection to maintain their privileged relationship with local telecommunication service suppliers (see, for example, Noll and Rosenbluth 1995). Another group that tends to resist telecommunications liberalisation is subsidised users, such as those in rural communities and users who predominantly make local calls.

Interests from outside the industry may seek to open rather than close the market. Internationally competitive suppliers, for example, may support service market liberalisation in their home markets as a means of expanding demand for their products abroad or as a quid pro quo for entry into foreign markets. Major users also have an incentive to support liberalisation as a means of significantly reducing input costs (see Destler and Odell 1987). Finally, foreign governments may demand the removal of impediments affecting their exporters.

Like all demand functions, the trade policy demands of various interest groups run into some constraints. Within the interest group models of trade policy, the major constraint identified is the political strength of an industry. The most commonly employed model of political strength focuses on the ability of the industry to form an effective lobby, with not all interests seen to have the same propensity to organise.

Some groups may experience difficulty in organising as a lobby because of the free-rider problem (see Olson 1965). This is generally considered to be less of a problem in industries that are dominated by a few very large firms, which can monitor each other’s contribution to the lobbying effort. Concentrated industries are thus considered more likely to be able to
lobby effectively for specific trade policy outcomes. However, in Japan, the political strength of small local firms is often stressed in the literature. It will be informative to see which effect predominates.

The capacity to meet the costs of developing an industry-wide association also influences the chance of forming an effective industry lobby. The sporadic nature of trade policy issues means that the costs of such organisation are hard to defray. This works as a disincentive to organisation. A possible solution for industries seeking to lobby government when a trade policy issue arises is to make use of any existing industry organisations (see Nelson 1988). Again, for some industries this is easier than for others. Industries that are highly unionised will tend to have such pre-existing organisations in the form of unions. Industries that are the product of specific regulation are much more likely to have industry organisations, with the competence and experience necessary to lobby government effectively.

Finally, it would be expected that industries that are publicly owned are likely to be able to lobby policy-makers effectively. If publicly-owned service industries provide services in an uncompetitive manner, then their market share, their returns to government and their employment levels will be in jeopardy from international competition and may engender demands for protection similar to those in the private sector. Such government service providers differ from many of their private sector counterparts in that they have existing channels of communication to policy-makers.

**Statist explanations**

Statist explanations differ from interest group explanations in that they highlight the autonomous role of the state in policy-making (see, for example, Lake 1988). State actors are seen to have policy preferences that are generated within the state and are not simply a reflection of societal interests. At least five specific policy objectives can be identified that may override the general policy objective of liberalisation.

The first possible policy objective is the protection of national sovereignty. There are two types of issue that arise under the rubric of the protection of sovereignty: national defence and the protection of culture.

The maintenance of the geographical integrity of the state is the dominant priority of all states. Any threat to this integrity can be used to justify almost any violation of alternative
policy objectives. While immediate threats to national security are relatively rare, potential threats have been widely used by many countries as an excuse for quite strict controls on international commerce. If national security is an issue within an industry it is more likely to receive protection.

Beyond national security, a second issue that tends to come up under the rubric of the protection of sovereignty is the protection of a nation’s culture. This is a particularly important issue in relation to services, because many service industries are seen to be intimately connected with the essence of national culture. If national culture is an issue within an industry it is more likely to receive protection.

The second policy objective that is likely to conflict with a preference for liberalisation is the goal of achieving reciprocal trade concessions from trading partners. The desire for reciprocity has already been discussed in terms of interest group activities, where it was seen to be a rational response by industries when factor mobility is a central issue. The underlying motivation for autonomous state actors to demand reciprocity is quite different.

In seeking reciprocity, state actors seem to be primarily motivated by the concept of ‘fair trade’ and the desire to use retaliatory trade policy as a lever to prise open competitor’s markets for the benefit of exporters. From an economic perspective, these motivations are self-defeating. However, it is not economics but rather the pursuit of wealth and power in ‘an anarchic and competitive international environment’ (Lake 1988, p. 37) that seems to motivate some state actors. If such ‘realist’ motivations are widespread, we would expect a nation’s trade policy to closely mirror that of its major competitors.

The third policy objective that is likely to conflict with a preference for liberalisation is the protection of the less fortunate in society. Cordon has postulated that society as a whole may be characterised by what he terms a conservative social welfare function (Cordon 1974). That is, members of society are prepared to pay to compensate losers from international competition as they derive some disutility from the losses of others in society. This is an argument sometimes used to justify the protection of low wage industries such as textiles. It could be that low wage service industries are protected for similar reasons.

The fourth policy objective that is likely to conflict with a preference for liberalisation is discerned from the literature on strategic trade and industry policy (Tyson 1992). This literature highlights the alleged role played by governments, particularly in East Asia, in industry development. The state is seen to have redirected resources to industries with a perceived future comparative advantage, through selective trade policy. The interesting point
about this theory of governmental action is that it provides diametrically opposite hypotheses to the standard interest group model (see Milner 1987; and Smith 1994). Industries that display increasing comparative advantage are predicted to receive protection, as opposed to uncompetitive or mature industries.

The final policy objective that is likely to conflict with a preference for liberalisation is the phenomenon of bureaucratic patch protection. Many government authorities around the world have been created with the primary task of supervising a particular service industry. Controls on foreign entry have been an important component of this function. Liberalisation could be seen as a threat, particularly if imposed from sources external to the authority. In such situations, the bureaucratic tendency to patch protection may override the general objective of liberalisation.

The interaction between interest group and statist demands

Both the statist and interest group theories provide plausible explanations for why the general forces for liberalisation may be resisted in specific industry cases. The interesting thing about these explanations is that they are not mutually exclusive. Indeed, it is highly likely that the objectives of interest groups and state actors will conflict and coalesce at different times. It is probable that when the latter occurs, liberalisation will be successfully resisted.

Method

There are multiple ways in which the applicability of these various theories have been tested in the literature on goods protection. Generally there has been a tendency for interest group theory to be tested using quantitative methods, while statist theories have been examined using qualitative, case study methods. The relative merits of both approaches are well known. This paper attempts to capture the generality of quantitative methods and the empirical detail of qualitative methods, by utilising both.

Quantitative analysis

To begin with, some of the hypothesised relationships between protection and certain interest group and statist variables can be examined quantitatively using various proxies. Table 1
defines each of the proxies used in this analysis and lists the sources from which the data were obtained.

The dependent variable used in this analysis, the measure of protection, is derived from Japan’s commitments under the General Agreement in Trade in Services (GATS), using a method first described in Hoekman (see Hockman 1995; and APEC 1995). Commitments to unimpeded market access and equivalent national treatment for each service industry have been quantified and then aggregated. The higher the number, the lower the extent of commitments, the greater the implied level of protection.

The discrete nature of this dependent variable means that standard linear regression techniques are not appropriate for testing the relationship between the variables (see Maddala 1992, p. 235). As a solution, the logit model has been used. Table 2 reports the results of the quantitative analysis. Output from a logit analysis is conceptually similar to that of a standard linear regression, except that the coefficients — the logits — are not related to the dependent variable in linear manner. However, the sign of the coefficient and the relevant t-statistic are interpreted in the usual manner. An R² value is not appropriate in logit analysis and so is not reported.

The first set of independent variables — labelled competitiveness variables — seek to measure the relative competitiveness of each of the service industries in an international context. Interest group theory would predict that less competitive industries are more likely to demand protection. In contrast, strategic trade theory predicts that protection is likely to be given to competitive rather than uncompetitive industries.

Measures of the international competitiveness of service industries are extremely limited due to data constraints. However, several proxies for international competitiveness can be obtained. Value added per employee (VA/E), for example, is commonly used as a measure for the capital intensity of an industry (see Johnson 1968; and Anderson and Baldwin 1987). It is assumed, from Hecksher–Ohlin, that in a capital abundant economy such as Japan, capital intensive service industries will be relatively competitive.

An alternative measure of international competitiveness is exports as a percentage of total trade. This is a useful revealed measure. An industry that has a low proportion of exports to total trade — imports significantly outweigh exports — is revealed to be internationally uncompetitive. Given the variability of service trade figures, average (AvETT) and relative change (D_ETT) figures have been utilised.
## Table 1 Definitions and sources of quantitative variables

<table>
<thead>
<tr>
<th>Variable</th>
<th>Definition</th>
<th>Source</th>
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<tbody>
<tr>
<td><strong>Dependent variable:</strong> Protection market access and national treatment by industry</td>
<td></td>
<td>Commitments on GATS (1994)</td>
</tr>
<tr>
<td><strong>Independent variables:</strong> Industry competitiveness</td>
<td></td>
<td></td>
</tr>
<tr>
<td>VA/E</td>
<td>Valued added per employee</td>
<td>MCA (1995a)</td>
</tr>
<tr>
<td>AvETT</td>
<td>Exports as a percentage of total trade: average 1985, 1990.</td>
<td>MCA (1995a)</td>
</tr>
<tr>
<td>D_ETT</td>
<td>Exports as a percentage of total trade: change 1985, 1990.</td>
<td>MCA (1995a)</td>
</tr>
<tr>
<td><strong>Industry maturity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>D_Emp</td>
<td>Percentage change in total employment</td>
<td>MCA (1995a)</td>
</tr>
<tr>
<td>D_VA</td>
<td>Percentage change in total value added</td>
<td>MCA (1995a)</td>
</tr>
<tr>
<td>D_Prod</td>
<td>Percentage change in total production</td>
<td>MCA (1995a)</td>
</tr>
<tr>
<td><strong>Propensity to organise</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>C4</td>
<td>Percentage of total sales by four largest firms</td>
<td>Fair Trade Commission</td>
</tr>
<tr>
<td>Union</td>
<td>Percentage of total workers who are members of a union</td>
<td>Ministry of Labour (1995)</td>
</tr>
<tr>
<td><strong>Anti-protection</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>XP</td>
<td>Percentage of total production that is exported</td>
<td>MCA (1995a)</td>
</tr>
<tr>
<td>USNTE</td>
<td>Industry appears in the US National Trade Estimate report</td>
<td>USTR (various years)</td>
</tr>
<tr>
<td><strong>Statist variables</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HICR</td>
<td>Number of GATS commitments by high income countries</td>
<td>Hoekman</td>
</tr>
<tr>
<td>LDCR</td>
<td>Number of GATS commitments by Hoekman developing countries</td>
<td></td>
</tr>
<tr>
<td>Wages</td>
<td>Average wages</td>
<td>MCA (1995a)</td>
</tr>
<tr>
<td><strong>Mixed variables</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Govt</td>
<td>Percentage of total industry workforce employed by government</td>
<td>MCA (1992)</td>
</tr>
<tr>
<td>Specreg</td>
<td>Industry is specific mandate of a government agency</td>
<td>MCA (1995b)</td>
</tr>
</tbody>
</table>
Table 2  Results of regression analysis for Japan

<table>
<thead>
<tr>
<th>Variables</th>
<th>Direction and significance of relationship</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Independent variables:</strong></td>
<td></td>
</tr>
<tr>
<td>Industry competitiveness</td>
<td></td>
</tr>
<tr>
<td>VA/E</td>
<td>-0.07 (0.15)</td>
</tr>
<tr>
<td>AvETT</td>
<td>-0.25 (0.50)</td>
</tr>
<tr>
<td>D_ETT</td>
<td>0.01 (0.58)</td>
</tr>
<tr>
<td>Industry maturity</td>
<td></td>
</tr>
<tr>
<td>D_Emp</td>
<td>-0.04*** (2.97)</td>
</tr>
<tr>
<td>D_VA</td>
<td>-0.01* (1.32)</td>
</tr>
<tr>
<td>D_Prod</td>
<td>-0.03** (2.28)</td>
</tr>
<tr>
<td>Propensity to organise</td>
<td></td>
</tr>
<tr>
<td>C4</td>
<td>0.02** (1.65)</td>
</tr>
<tr>
<td>Union</td>
<td>0.18*** (3.55)</td>
</tr>
<tr>
<td>Anti-protection</td>
<td></td>
</tr>
<tr>
<td>XP</td>
<td>0.02 (1.26)</td>
</tr>
<tr>
<td>USNTE</td>
<td>0.8 (1.77)</td>
</tr>
<tr>
<td>Statist variables</td>
<td></td>
</tr>
<tr>
<td>HICR</td>
<td>-0.07*** (5.72)</td>
</tr>
<tr>
<td>LDCR</td>
<td>-0.05*** (4.49)</td>
</tr>
<tr>
<td>Wages</td>
<td>0.001** (1.64)</td>
</tr>
<tr>
<td>Mixed variables</td>
<td></td>
</tr>
<tr>
<td>Govt</td>
<td>0.001 (0.09)</td>
</tr>
<tr>
<td>Specreg</td>
<td>1.1*** (2.47)</td>
</tr>
</tbody>
</table>

Note:  Significant levels: * = .10, ** = .05, *** = .01
What is immediately apparent from Table 2 is that industry competitiveness — measured by both theoretical (VA/E) and revealed (AvETT and D_ETT) methods — does not seem to systematically relate to the levels of protection afforded different service industries. A negative relationship between competitiveness and the level of protection is found in two of the three measures, as would be predicted by interest group theory, but the findings are simply too weak to draw any solid conclusions.

The results in the second set of independent variables are much more positive for interest group theory. These variables measure the maturity of a service industry, with a mature industry assumed to have low levels of employment growth (D_Emp) and low levels of output growth — measured as changes in value added (D_VA) and changes in production (D_Prod). Interest group theory would predict that such industries are more likely to seek protection. In contrast, strategic trade theory predicts that protection is more likely to be given to growing industries.

The evidence reported in Table 2 indicates that service industries in Japan experiencing low or negative growth in employment and output are much more likely to be protected than are industries experiencing strong employment and output growth. These findings are strongly consistent with the predictions of interest group theory and support findings in the literature on manufacturing protection on the importance of unemployment as a predictor of protection (see, for example, Bergsten and Cline 1983). They also tend to suggest that some form of strategic protection of industries that are expected to experience significant future growth is not really driving policy outcomes in services.

The third set of independent variables measures the propensity of an industry to organise and hence successfully register its demands for protection. A standard measure of the degree of industry concentration is used; the percentage of total sales in an industry accounted for by the four largest firms (C4). Similarly, the degree to which an industry is unionised is measured as the proportion of total workers who are members of a union (Union).

The data seems to lend support to the interest group theory prediction that highly concentrated and unionised industries are far more likely to be able to overcome the free-rider constraints and successfully form a coherent lobby to pursue their trade policy objectives. In particular, highly unionised industries are much more likely to receive protection in Japan. While the findings for industry concentration are not so strong, the direction of the relationship is as predicted by standard interest group theory and is approaching significance. This is
interesting in light of the often-remarked power of industries characterised by small firms in Japan.

The fourth set of independent variables are designed to measure the extent to which anti-protection plays a role in policy outcomes. According to interest group theory, an industry that has a high degree of exposure to international markets is assumed to be unlikely to demand protection for fear of retaliation. International exposure can be measured by the variable XP, which gauges the proportion of total production that is exported. The findings for this variable, reported in Table 2, are relatively weak, though the direction of the relationship is as predicted.

Useable quantitative measures of anti-protection arising from suppliers and users of an industry are not available. A direct measure of anti-protectionist pressure from the US government is available, however, in the form of the annual National Trade Estimates report. This lists specific industries in specific countries which the American government considers to be impeded and to be of interest. The variable USNTE measures whether or not an industry has appeared in the reports at any stage in the five years preceding the conclusion of the Uruguay round. The results for USNTE are not significant, though they are approaching significance and the sign is as predicted.

The fifth set of independent variables are those designed to measure some of the statist predictions of the determinants of policy outcomes. Effective quantitative measures of whether or not an industry is sensitive to national defence and cultural concerns are not available.

Possible measures of the extent to which reciprocity is a determinant of policy outcomes are available through aggregating the various GATS commitments of both high income (HICR) and developing (LDCR) countries and seeing how well they correspond with the commitments made by Japan. It is immediately obvious from Table 2 that there is a high correlation between Japan’s commitments and those of other countries, particularly those of higher income countries.

This finding could be an artefact of the measure of protection utilised in this analysis. The GATS, like its commodities counterpart, the GATT, is negotiated in a manner that leads to a trading off of commitments. However, if Japanese government assertions that its schedule of commitments closely matches its actual policy regime are to be believed, then this finding does seem to suggest that reciprocity is an important component in determining Japanese policy outcomes.
The protection of less fortunate workers as a motivation for protection can be directly tested by comparing the average wages (Wages) of protected industries with levels of protection. If this statist prediction is correct, it would be expected that low wage industries are more likely to receive protection than high wage industries. In fact, the evidence presented in Table 2 tends to suggest the opposite. Indeed, this finding seems to be more consistent with the finding that highly unionised industries receive protection, as such industries are more likely to receive higher wages.

The final set of independent variables is labelled mixed, because the effect the two variables are measuring is not clearly within either the statist nor interest group paradigm. From the perspective of interest group theory, government service suppliers are simply another interest group, albeit with particularly good connections to policy-makers. Alternatively, state enterprises can be considered to be a state actor with autonomous preferences, within the statist theoretical framework. Either way, it is expected that an industry where government is itself a significant provider of the service — measured as a proportion of the total workforce in an industry that is employed by the government (Govt) — will have an increased chance of receiving protection, particularly if it is uncompetitive.

The results reported in Table 2 do not support this hypothesis. As the data is from 1992, it is possible that the significant privatisations undertaken in the 1980s have greatly reduced the extent of government service delivery in Japan. It may also be that the data is slightly misleading, in that NTT is considered in official statistics to be privatised, despite the fact that some 75 per cent of NTT shares are held by the Ministry of Finance.

In service industries that are the mandate of a specific government agency and have a long tradition of industry-specific regulation, the relationship between state and societal actors is also not theoretically clear. From the perspective of interest group theory it is possible that the agency has been captured by the regulated industry. Alternatively, from the perspective of statist theory, explanations for agency behaviour could include the phenomenon of bureaucratic turf protection. Either way, it is expected that an industry that is the specific mandate of a government department (Specreg), other than the general industry department, will have an increased chance of receiving protection, particularly if it is uncompetitive.

The results for this variable reported in Table 2 are as predicted and are strongly significant. This would suggest that there is some relationship between protection afforded and a history of industry specific regulation. To understand the exact nature of this relationship requires more detailed qualitative analysis.
The picture that emerges from the quantitative analysis is that service industries in Japan are protected if they are mature and well organised. This is consistent with interest group theory and tends to suggest that the political economy processes operating in relation to services are somewhat similar to those operating in goods. However, it is also interesting to note the strong relationship between protection and the degree to which foreign governments afford protection and the existence of a specific regulatory agency. Neither of these findings are inconsistent with interest group theorising but suggest that some statist motivations may be in operation. To get a more detailed picture of these various forces, it is helpful to examine the policy processes in detail.

**Qualitative analysis: telecommunications trade and investment policy in Japan**

The telecommunications industry provides an interesting case for the study of trade and investment policy affecting service industries. In countries all around the world, there is a regulatory distinction drawn between a basic and a value added segment of the industry. The former is usually characterised by restrictive policies, while the latter is often relatively exposed to international competition. Japan is no exception to this pattern, with service providers that own telecommunication networks — Type I carriers — facing strict foreign ownership regulations, while service providers that use leased networks — Type II carriers — are relatively open to international competition. The question is what are the forces that account for this distinction?

Japan’s telecommunications industry was substantially reformed in 1985. Before that time, NTT, the state-owned common carrier, held a monopoly over the provision of all domestic telecommunication services. Kokusai Denden Corporation (KDD), having been privatised in 1952, was the monopoly common carrier for international telecommunications. In April 1985, three new common carriers (NCCs) began nationwide long distance services and a series of mobile and regional companies were licensed to compete with NTT. NTT retains an effective monopoly over local wireline services and though partially privatised, the vast majority of its shares continue to be held by the Ministry of Finance. In October 1989, two new NCCs were licensed to compete against KDD in international communications.

The 1985 Telecommunications Business Law of Japan instituted the distinction between Type I and Type II carriers. Type I carriers are regulated by the Ministry of Posts
2.16

and Telecommunications (MPT), which requires detailed plans before granting permission to operate. Foreign entities are limited to a maximum of less than one-third of the shares of a Type I carrier and a maximum of less than one-fifth of the shares in NTT and KDD. The latter two are regulated under separate ‘Organization Laws’. In ongoing multilateral negotiations, Japan has offered to remove foreign ownership restrictions on Type I carriers, other than KDD and NTT, conditional on the offers of major trading partners (Ministry of Posts and Telecommunications 1996).

Type II carrier business was liberalised in April 1985. Until 1982 it was illegal in Japan to connect a computer to telephone lines without the explicit permission of NTT. Since 1985 no restrictions have been imposed on the cross border supply of such services nor on the foreign ownership of such service suppliers. Permission to operate requires filing an application with MPT, the stringency of which varies according to technical specifications. Interconnection with NTT remains a problem, with MPT only recently moving to enforce fair and reasonable interconnection rates. NTT has been allowed unfettered access into all lines of business, with the exception of international services.

At first glance, the standard interest group explanation for policy outcomes does seem to provide a sound explanation of the levels of protection afforded different segments of the telecommunication services industry in Japan.

The international competitiveness of all segments of the Japanese industry has been a matter of concern in Japan since the early 1980s. For example, in terms of penetration rates, Japan rates highly in wirelines per head, but remains a long way behind in cellular and on-line services usage. Furthermore, in comparison with other OECD countries, telephony prices remain comparatively high in Japan, multifactor productivity measures are relatively low, and Japanese telecommunication firms do not have a major presence in international telecommunication markets (Bureau of Industry Economics 1995).

The internationally uncompetitive nature of the Japanese industry, both basic and enhanced, suggests that demands for protection from the industry would be common. Publicly stated positions on policy are rarely made by Japanese firms. However, careful research by leading scholars of Japanese policy indicates that both NTT and important value added service suppliers like the International Bank of Japan were strongly in favour of the tough restrictions on foreign service firms initially proposed by MPT in 1984 (see Calder 1989; and Johnson 1989).
Also in favour of continued protection of the Japanese telecommunications market were the so-called NTT ‘family firms’. Firms such as Fujitsu and NEC, members of NTT’s equipment manufacturing cartel, were concerned about losing their privileged access in a more competitive regulatory environment. There is also some evidence of the protectionist attitudes of subsidised rural consumers in the stance taken by rural politicians on the relevant parliamentary committee, the so-called ‘postal zoku’ (see Johnson 1989).

The primary force arrayed against protection of the Japanese market was the US government, representing both American equipment manufacturers and telecommunication service suppliers. US negotiators were involved in the intense lobbying process that preceded the 1985 legislative changes and continue to press Japan for the removal of policies that impede foreign service suppliers (see Calder 1989; and United States Trade Representative 1996). Increasingly, Japanese service suppliers and business users have pushed for greater foreign access to the Type I market as a means of reducing NTT’s market dominance. Their ranks have been increased by Japanese equipment manufacturers such as Toshiba and Matsushita, who are not privileged suppliers of NTT (see Noll and Rosenbluth 1995).

The demands of Type I carriers for protection have been accommodated, but not those of Type II carriers. This would be predicted by interest group theory given the characteristics of both industry segments. Type I carriers are far more concentrated than Type II carriers. In 1995 there were 108 Type I carriers, with NTT capturing over 80 per cent of the domestic market and KDD over 70 per cent of the international market. In comparison, there were over 2,000 Type II carriers in diversified service areas.

Unionisation rates are much higher in Type I carriers, particularly NTT and KDD. NTT unions, in particular, have proven themselves to be a formidable lobby. The recent postponement of any decision on the proposed break up of NTT highlighted this force in Japanese politics: ‘As in 1985 and 1990, Diet members refused to risk their seats prior to a probable election … by alienating unions representing NTT workers, which are powerful lobbying organizations’ (Nihon Keizai Shimbun, 1 April 1996).

Finally, the old dominant carriers have been the recipient of specific regulation since their inception. Both were originally part of the old Department of Communications and have long established links with the bureaucracy and the Diet (see Johnson 1989). The Ministry of Finance remains NTT’s largest shareholder. Some shareholders in the newer Type II carriers have strong links with government but not necessarily with the telecommunications policy apparatus. Each of these characteristics suggests that Type I carriers are more likely
to have their policy demands effectively articulated to policy-makers and are thus more likely to be protected than are Type II carriers.

In Japan the evidence for statist motivations overriding pressures for liberalisation is mixed.

The protection of national sovereignty in Japan is mainly a question of national security. Cultural protection does not appear to be such a major issue, even in relation to broadcasting, where Japan is comparatively liberal (APEC 1995). National security, on the other hand, is a commonly used rationale for the existence of restrictions on foreign ownership of Type I carriers. Johnson highlights how national security was used by MPT, somewhat disingenuously, in 1982 as a reason for regulation of foreign value added service providers. The failure of that argument to succeed and the recent Japanese offer to lift foreign ownership on most Type I carriers suggests that national security plays a more limited role in telecommunication policy outcomes than is indicated by initial observation.

Specific reciprocity also plays a minimal role in Japanese policy-making. Indeed, Japan has joined the European Union in criticising the United States for its explicit use of reciprocity in relation to telecommunications and is a long-term critic of the specific reciprocity that underpins such US trade policy instruments as ‘Super 301’.

The evidence for a conservative social welfare function driving policy is also limited. As in the United States, workers in the telecommunication industry in Japan receive above average remuneration. Average annual wages in 1990 in the Japanese telecommunications industry stood at ¥6,063,000 compared with average wages of ¥4,104,000 in the legal and accounting industries and ¥2,614,000 in the retail industry.

Much of the literature points to Japan as the pre-eminent proponent of strategic trade and industry policy. Indeed, much of the policy change that occurred in Japan in relation to telecommunications in the 1980s does seem to have had its genesis in a fear of declining competitive advantage in an industry seen as vital for Japan’s economic future. However, it is interesting to note that Japan eventually adopted a policy that retained protection of the most mature section of the industry and liberalised the section with the most long-term potential. This is a policy outcome more in keeping with interest group theory rather than strategic trade predictions.

Of all the possible statist objectives, bureaucratic turf protection appears to be of most relevance. Initial moves toward telecommunications policy reform in Japan seem to have been in part motivated by a turf war between MPT and MITI concerning jurisdiction over value
added networks. MPT proposed complete regulation which included strict limits on foreign access. MITI pushed for competition and liberalisation as a means of bringing the industry under its control through its influence over computer and microelectronic industries.

The final decision on foreign entry into the Type II market was brokered by the relevant Diet committee. MITI, with strong support from the United States and Diet representatives of non-NTT family firms, successfully had the proposed entry controls removed, though it was unable to prevent MPT obtaining licensing jurisdiction.

MITI has been far less involved in policy affecting Type I carriers. Instead, NTT and MPT have been engaged in a battle dating from the early 1980s over MPT’s plan to break up NTT. After years of unsuccessfully trying to reduce NTT’s dominance in the domestic market through divestiture, MPT now seems prepared to countenance greater foreign ownership as a mechanism for enhancing competition (see *Nihon Keizai Shimbun*, 20 February 1996).

NTT seems unconcerned about the prospect of greater foreign ownership of Type I carriers in general. Indeed, it has publicly supported the policy before a government panel on deregulation as a means of ensuring liberalisation in the United States (see Reuters, 3 October 1995). It is, however, strongly resistant to foreign investment in itself and seems to have successfully delayed implementation of MPT recommendations on foreign investment in the Diet (see *The Japan Times*, 30 March 1996).

The Japanese experience indicates that some form of interaction between powerful state and societal interests leads to policy outcomes. In the case of policy affecting Type I carriers, we have the very powerful combination of a dominant carrier with extremely strong links to the Diet and limited bureaucratic pressure for liberalisation. In the case of Type II carriers, we have the US government, business users and some manufacturers coalescing with powerful state interests to overcome resistance to liberalisation.

**Conclusion**

This paper has sought to identify the forces that resist liberalisation in the services sector in Japan. Drawing upon the political economy of protection literature, two potential sources of protectionist sentiment were identified: uncompetitive, but politically powerful interest groups; and important state actors motivated by policy objectives that conflict with the general economic prescription of the optimality of free trade and investment.
The evidence from the quantitative analysis indicates that service industries in Japan are protected if they are mature and well organised. This is consistent with interest group theory and tends to suggest that the political economy processes operating in relation to services are somewhat similar to those operating in goods. However, the quantitative analysis also identified a strong relationship between protection afforded in Japan and the degree to which protection is afforded by foreign governments. Protection also seemed to be strongly related to the existence of a specific regulatory agency. Neither of these findings are inconsistent with interest group theorising but suggest that some statist motivations may be in operation.

The qualitative analysis also highlights the efficacy of interest group analysis in understanding the forces resisting liberalisation in services. As interest group theory would predict, it is the mature, more well-organised segment of the Japanese telecommunications industry that effectively engages in lobbying to protect itself from international competition. However, it is when these powerful societal forces coalesce with state interests that liberalisation seems to be most effectively resisted. As the process of liberalisation in services continues, these coalitions are likely to become more apparent all around the world.

Notes

1 The concept of contestability is introduced and discussed in Zampetti and Sauvé (1996).
2 For a recent review of this literature, see Rodrik (1994).
3 This assumption is derived from a standard trade model incorporating partially immobile factors. See Nelson (1988).
4 Because factors in an industry tend to be partially immobile, both capital and labour are assumed to have similar policy preferences in relation to trade and investment policy in the short to medium term.
5 See for example Macdonald (1990) for a discussion on technology export controls.
6 For a discussion on the concept of fair trade, see Tyson (1992).
7 Cheh (1974) has tested such a theory empirically using average wages as a measure of vulnerability.
8 On interpretation of logit analysis, see Liao (1994).
Of course, causality can be reversed in this, as in many other relationships, and it could be argued that protection allows industries to be highly concentrated and highly unionised.

The higher income and developing categories are taken from the data source. For details, see Hoekman (1995).


See Ministry of Posts and Telecommunications (1995), though many Type II carriers are linked by keiretsu ties (Noll and Rosenbluth 1995).

This was the initial reason given by many Japanese policy-makers in interviews undertaken by the author in October 1995.

MPT officials indicated to the author that in Japan the lack of a defence department means that all departments have to be cognisant of national security issues.

While the Japanese offer to remove ownership restrictions on new Type I carriers is conditional on reciprocity before becoming law, once it is law it is envisaged that it will be applied on a most-favoured-nation basis.

The earnings data comes from the Management and Coordination Agency (1995a).

See Miller (1987) for a discussion of this argument and for evidence that casts doubt upon its validity.

This discussion on bureaucratic motivations is drawn from Calder (1989), Johnson (1989) and Noll and Rosenbluth (1995).

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The Politics of Deregulation and Japanese Agriculture

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3. The Politics of Deregulation and Japanese Agriculture

‘It’s like fanning the sun with a peacock’s feather’
— Nakazawa (1995, p. 11)

Deregulation, or kisei kanwa is integral to the neoclassical prescription for economic reform in Japan, involving a critical reassessment of the roles and responsibilities of government in relation to the economy (Tanaka and Horie 1995, p. 240). Described as Japan’s ‘perestroika’ (Keitaro 1989, p. 130), deregulation entails tackling the multitude of registration, permit, assistance, control and approval schemes administered by the Japanese bureaucracy.

Japan has traditionally been regarded as a highly regulated society characterised by ‘bureaucratic intervention in all facets of corporate and consumer activity’ (Nakauchi 1994, p. 2). Deregulation presupposes a fundamental shift away from ‘bureaucratic control and central authority toward a uniquely Japanese people-oriented society, led by citizens and private enterprise’ (Nakauchi 1994, p. 2). It envisages consumers making decisions in markets where administrative impediments are minimised instead of ‘having to entrust authorities to make decisions on … [their] behalf’ (Chuo 1995, p. 8).

The power of the deregulatory phenomenon is the idea that it is something the Japanese economy needs for its own reinvigoration and that past bureaucratic methodologies of economic growth are no longer appropriate. Spurred by the collapse of the speculative bubble and the prolonged recession, a consensus has emerged that government regulations are excessive, are inhibiting Japan’s economic recovery and are slowing the growth of the Japanese economy (Nakasone 1995, p. 8). Other considerations are also important: the view that internationalisation and deepening economic interdependence requires Japan to harmonise more closely with other market economies, and, secondly, an increasing realisation that the principles of transparency and fairness need to be more strongly applied to regulatory administration (Tanaka and Horie 1995, p. 244).

The consensus supporting deregulation in Japan spans key groups and institutions in Japan’s politico-economic system. Within the bureaucracy its main proponents are two independent bodies which are not charged with administering particular sectors and clientele industries. The first is the Management and Coordination Agency (MCA) of the Prime Minister’s Office, which has a specific responsibility to promote administrative reform.
including deregulation (Tanaka and Horie 1995, p. 248) and which acts as the secretariat for various government administrative reform councils. The second is the Economic Planning Agency (EPA), which, amongst its other duties, is charged with coordinating economic policies and price policies and promoting consumers’ policies. It tackles deregulation from these perspectives (Tanaka and Horie 1995, p. 249). Although the EPA is regarded as a relatively weak ministry (it had, for example, only 513 official personnel in 1995) (Somucho 1995) it is the closest thing Japan has to a ministry representing consumer interests.

Other groups openly advocating deregulation are academic economists, Japanese consumer organisations, elements of the political leadership, particularly in Japan’s ‘new parties’, the powerful media voice representing public opinion, citizens’ groups and, last but not least, certain sections of Japanese industry, with the most outspoken representations for deregulation being made by the Federation of Economic Organisations (Keidanren). Japan’s deregulation also has the backing of foreign business and the US administration, which has applied external pressure (gaiatsu) to tackle what it sees as regulation-induced ‘structural obstacles’ to Japanese market access.

On Japan’s contemporary policy agenda, the question of deregulation is very much intertwined with the issues of administrative, fiscal and tax reform. These share the common objectives of ‘revitalising Japan’s economy and society from the standpoint of the people’s livelihood’ (seikatsusha no tachiba kara), as well as alleviating the public burden of government regulation and fiscal expenditure, allowing consumers to benefit from increased competition and promoting import growth.

As policy objectives, administrative reform and deregulation are often considered two inseparable parts of the same process. While the former specifically targets rules and regulations, the latter targets the administering agencies with a view to reforming their structure, procedures and operations (Masujima 19—, p. 89). In practice, it is difficult to separate the two. In the era of fiscal constraint in the 1980s, administrative reform focused largely on reducing the size of the government (in order to cut government expenditure) which inevitably mandated a review of the role of the public sector vis-à-vis the private sector (Masujima 19—, p. 190). Furthermore, because ‘regulations require regulators’, administrative reform is seen as indirectly advancing deregulatory goals even in the absence of strict deregulation per se.

This paper begins by identifying the common structural features of regulatory systems in Japan. It then details the series of government-sponsored deregulation ‘packages’
formulated since the advent of the Hosokawa-led coalition government in 1993 and discusses how each was critically evaluated at the time. Agriculture is selected as a specific case study to determine whether the government-sponsored program of deregulation has merely had a superficial impact or whether it has successfully tackled some of the more deeply entrenched administrative controls exercised by the Ministry of Agriculture, Forestry and Fisheries (MAFF). The final section of the paper addresses the complex politico-administrative obstacles that hinder deregulatory reform in Japan. It also canvasses the issue of political leadership and the complexities of current party-political configurations on deregulation policy. The paper concludes that the reform process will continue to be impeded by political-bureaucratic-vested interest triangles embedded in the system of administrative assistance and control. The overall impetus for change, however, will be sustained by national economic imperatives, with reform progressing more quickly in some sectors than in others.

The regulated system model

Although there is no legal definition of regulation, it is understood as ‘intervention of national or local government in the activities of private enterprises or the people in order to realize specific policy objectives’ (Tanaka and Horie 1995, p. 241). Within the Japanese national government, the quasi-legal definition is ‘an activity by which the government directly and authoritatively restricts the people’s (or businesses’) rights or puts duties on them’ (Tanaka and Horie 1995, p. 241).

Regulations can be divided into those that serve either economic or social purposes. Social regulations seek to safeguard people’s lives: they cover fields such as public health, environmental protection, disaster prevention and so on. They prohibit certain acts, restrict certain business activities, secure the safety of facilities and quality of goods and services by inspection and text procedures, and restrict actors by imposing qualification systems (Tanaka and Horie 1995, p. 243). Economic regulations, on the other hand, may be designed to ‘foster or protect a certain industry or business’ (Tanaka and Horie 1995, p. 243, or ‘put limits on business activities, by, for example, restricting market entry and setting prices’ (Tsuruta 1994, p. 17).

Highly regulated industries in Japan have included public utilities (electricity and gas industries), certain sectors of manufacturing (for instance, petroleum refining, petrochemicals, cement, paper, glass, food processing and textiles), the service sector (retailing,
distribution, insurance, telecommunications, construction and transport — airlines, railways, shipping and stevedoring) and the primary sector (agriculture, forestry and fishing). Many of the firms in these industries belong to what Noguchi calls 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 (Noguchi 1994, p. 25). According to calculations by the Fair Trade Commission and the Economic Planning Agency, regulated industries in the early 1990s accounted for 40 per cent of Japan’s GNP (in comparison with 7–10 per cent for the United States) (Tsuruta 1994, p. 17).

Regulatory systems in these industries generally share certain common features. They may be based on a particular industry law (or set of laws) setting out in general terms the overall objectives of the system and providing ‘legal justification for bureaucratic intervention’ (Tsuruta 1994, p. 19). The law identifies (and even sometimes creates) the participants in the system or, alternatively, lays down the qualifications for entry as well as lists the range of permitted economic activities. The law also grants administrators wide discretionary powers to formulate policies designed to advance its main objectives, to authorise and screen the entry of market applicants, and to adjudicate on matters relating to the range of permitted activities. Participants who qualify must ‘register’ with the ministry in order to be able to conduct the specified business. As a result, they become a ‘designated’ businesses. The law is usually supplemented by ministerial ordinances (shorei), regulations (kisoku) and enforcement ordinances (sekorei) that amplify details of the system. Alternatively, rights and duties may restricted or put on the people or businesses by ‘administrative disposition’, or by ‘administrative guidance’ of a regulatory nature. Administrative guidance (gyosei shido) often fills the gaps in legal–administrative controls.

The impact of these legal and administrative provisions is restrictive and excluding: no one outside duly recognised entrants may participate and no activities except those duly recognised may be lawfully conducted. The effects of restricted market entry, limited competition between the participants and the imposition of other controls such as import restrictions are to raise the prices of the goods and services produced by these industries and thus protect the interests of producers at the expense of consumers.

Each system is uniformly justified on public interest grounds, such as ‘development of the national economy’, ‘preventing excess competition’, ‘smoothing fluctuations in supply’, ‘ensuring stability of price’, ‘protecting the consumer’, ‘maintaining quality standards’ and
so on. Invoking concepts of security, safety and stability and the like provides the basic rationalisation for regulating markets and preserving bureaucratic oversight and controls over these markets. The overall effect is protectionist: duly authorised market participants are protected from ‘unauthorised’ competition and hence are rewarded for regulatory compliance with high profits. As a result, regulation encourages collusion between bureaucratic regulators and protected industries by institutionalising their common interests. These groups share a vested interest in system maintenance. Some of these private sector profits 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.

In contrast, the system does not reward those who pay the administratively-sanctioned profit margins: usually retailers and consumers. As Noguchi (1994, p. 27) has pointed out, restrictions on agricultural imports, limiting the number of taxicabs that can operate and fixing the fares they can charge, and restricting the number of big stores that can open in local districts are all examples of regulations that hurt the consumer. Opposition to regulation may, therefore, start at the consumer–retailer end, or from corporate entities that want to diversify into other protected domains, or from maverick entrepreneurs who see greater profits from unregulated markets and who are not prepared to play by the rules. The system is protected from these unruly elements, however, by threats of legal and bureaucratic sanction and, if this fails, by ‘unofficial’ intimidation, sometimes using ‘recruits’ from protected industries.

The system runs into problems when it encounters the outside world. Initially, it meets this problem by either banning or restricting imports, or by forcing imports to conform to the system’s rules and regulations. Potential foreign entrants that cannot, or will not conform are banned from the market. For those that manage to get their products or services through the regulatory net (usually at great cost and with long time delays), the assistance of their own government is often required to apply pressure on the Japanese government.

If the closed regulated system becomes the target of market access negotiations, some relaxation of restrictions at the border accompanied by adjustments in local markets may occur. Change, however, requires the application of concerted outside pressure because of the strength of domestic vested interests. The three primary sets of beneficiaries — the authorised participants (that is, producers and/or other business interests making administratively-sanctioned profits), bureaucrats (maintaining untrammeled regulatory powers and retirement jobs in semi-governmental regulatory institutions and private sector businesses) and politicians (obtaining political funding from protected industries) — form an ‘iron triangle’ with a strong common interest in resisting such pressure.
The incremental process of deregulatory reform

The slow pace of deregulation over the past five years attests to the strength of these iron triangles. In 1993 the coalition government under Prime Minister Hosokawa Morihiro adopted deregulation as a primary tenet of its economic policy. The preceding Liberal Democratic Party (LDP) administration had paid lip service to the ideal of deregulation but had not seriously advanced its progress. Historically speaking, deregulation functioned as little more than an occasional stimulus policy for the economy rather than as a central pillar of economic structure policies (Nitta 1994, p. 20).

The first government-sponsored reports advocating substantial economic deregulation was the so-called Maekawa Report of April 1986. Following the release of that report, domestic calls for deregulation continued, but, instead of declining, the number of government regulations actually increased (by 460 in 1992 alone) (Nitta 1994, p. 20). Indeed, the number of regulations involving government authorisation or licences totalled 10,942 at the end of March 1992, a figure which rose by an average of 1.4 per cent annually from 1985. Of these 10,000+ regulations, more than 1,000 each fell under the jurisdiction of the MAFF, the Ministry of International Trade and Industry (MITI), the Ministry of Transport (MOT), the Ministry of Finance (MOF) and the Ministry of Health and Welfare (MHW) (The Japan Times, 26 July 1995). These five ministries accounted for roughly two-thirds of the regulations that required approval and authorisation and only at two of these ministries had these measures actually decreased since 1985 (The Japan Times, 26 July 1995). The proportion of the total number of regulations administered by each ministry was 17.9 per cent for MOT, 17.5 per cent for MITI, 12.4 per cent for MAFF, 11.3 per cent for MOF, 10.7 per cent for MHW, and 30.2 per cent for ‘others’ (Nitta 1994, p. 20, Table 3).

Hosokawa’s deregulation brief stemmed directly from his experiences as Governor of Kumamoto where he had to confront and accommodate the petty regulatory powers of the central ministries. On acceding to the Prime Ministership he was quoted as saying that he wanted ‘to stand on the side of the people, not on the side of Nagato-cho … or on the side of the producers. I have said this because I will not forget the party’s roots’ (BBC Monitoring Service — Far East, 13 September 1993). His platform of ‘responsible change’ included political reform, economic reform and administrative reform. The last two items on this agenda encompassed an integrated program of trade liberalisation, deregulation and privatisation of publicly-owned industry.
Carrying out meaningful reform, however, was another story (The Canberra Times, 17 September 1993). The achievements of the Hosokawa administration were generally regarded as much more impressive on the trade front than in the area of domestic deregulation. Assisted by the tailwind generated by external pressure (gaiatsu), the Hosokawa government acceded to the Uruguay Round (UR) trade agreement in December 1993.

Progress on domestic deregulation was much slower and harder to achieve. In September 1993 deregulation was proposed as one of the three elements making up a ¥6.15 trillion emergency economic stimulus package. Included in the package was a list of 94 regulations to be eased in four main areas: increasing business opportunities, enhancing competition, promoting imports and reducing paperwork. The reforms included measures to allow the purchase of mobile telephones, to relax Japan’s onerous car inspection requirements and to lower the minimum amount of beer brewed by Japanese companies (The Canberra Times, 17 September 1993). Almost half the package was devoted to stimulating housing investment while ¥1 trillion was to help small and medium-sized companies.

Domestic economic commentators described the package as ‘pathetically inadequate … The abiding impression left by the package is that the sacred cows or industry may graze on undisturbed, the protected business sanctuaries where no competitor may set foot remain secure. So much effort; so little result.’ (Tazaki and Kudo 1993, p. 16). The Executive Director of the Japan Department Stores Association was no less critical: ‘The trunk of the regulatory tree is still standing. All that’s happened is that a few of the branches and leaves have been trimmed back’ (quoted in Tazaki and Kudo 1993, p. 17). Even the Minister of International Trade and Industry admitted: ‘We didn’t get to the heart of the problem’ (quoted in Tazaki and Kudo 1993, p. 17).

These sentiments echoed those expressed by outsiders. A key adviser to Bill Clinton was quoted as saying that ‘the measures were not enough’ (The Canberra Times, 17 September 1993), while the directors of the American Chamber of Commerce in Japan (ACCJ) commented that: ‘The new administration under Prime Minister Hosokawa has set out a policy of promoting deregulation, but we are doubtful as to how much progress will be made’ (quoted in Nagami 1993, p. 12). Some of the items were in fact ones that had already been deregulated. Others were ‘old measures that had already been agreed long before’ (Tazaki and Kudo 1993, p. 17).

Under the banner of deregulation and in a bid to stimulate the economy, the Hosokawa administration subsequently launched a more direct attack on Japan’s bureaucracy. It
demanded that key ministries specify and implement sweeping liberalisation measures as soon as possible. It appointed an advisory panel reporting to Prime Minister Hosokawa called the Advisory Group for Economic Structural Reform (Keizai Kaikaku Kenkyukai), headed by Hiraiwa Gaishi, Keidanren Chairman. The panel was charged with preparing a bold economic deregulation plan to reform the nation’s political, economic and administrative systems. Prime Minister Hosokawa himself often attended the deliberations of the Advisory Group. He asked it to discuss three issues: mid-term and long-term perspectives on economic reform responding to internal and external demands; policies aiming at improving the quality of life from the viewpoint of giving priority to consumer interests; and policies to establish a social structure compatible with international norms (Kyodo News, 16 September 1993). The council was asked to draft a paper similar to the 1986 Maekawa Report by the end of 1993 (Kyodo News, 16 September 1993).

The ‘Interim Report on Deregulation’ submitted by the Advisory Group in November 1993 acknowledged that regulations had contributed to industrial development and ‘stabilisation of the national livelihood’, but also submitted that they were now serving to impede socio-economic reform. The report listed the benefits of deregulation as the potential to create new business opportunities for companies and job increases, to provide a wider choice of goods and services for consumers, to narrow price gaps between goods sold in Japan and foreign countries, and to promote domestic and international competition, greater transparency in Japan’s socio-economic system and international harmonisation (‘Keizai Kaikaku Kenkyukai no Chukan Hokoku’ 1993, p. 1). The report differentiated between two types of regulations. One was economic regulation, which targeted market entrants and prices, and the other was social regulation, which aimed to ensure security and environmental protection. The Interim Report recommended that the basis of economic regulation should be ‘liberalisation in principle and regulation only in exceptional cases’. It also recommended that social regulations should be kept to a minimum, based on the principle of ‘individual responsibility’, and stated that deregulation should have no ‘sacred cows’ (Kishi 1994, p. 8). The report received a mixed reception. The addition of the words ‘in principle’ was regarded as significantly weakening the force of the recommendation to abolish all regulations. Nevertheless, attached to the Interim Report was a separate table listing 500 economic and social regulations targeted for deregulation investigation (Kishi 1994, p. 8).

The final report of the Advisory Group was submitted in December 1993. It proposed five pillars of reform: deregulation; the formation of a domestic demand-led economy filled
with intellectual and creative vitality; the determination of an inclusive welfare vision for an aging society with fewer children and the formation of a society jointly created by males and females; the provision of a free and large market and the implementation of multi-faceted external assistance (including taking the lead in endeavours for the success of the Uruguay Round); and reform of the fiscal structure including the revitalisation of financial and capital markets (Kishi 1994, pp. 7–8).

Press reception to the report was generally negative and included commentary such as ‘lacking in concreteness’ and ‘lacking punch’ (Nakatani 1994, p. 28). Another criticism was that those business leaders and academics involved in the advisory process were ‘given neither responsibility nor authority’ (The Nikkei Weekly, 3 June 1996). All they could do was listen to interminable explanations from bureaucrats. One positive outcome was the recommendation for the establishment of an Administrative Reform Promotion Headquarters to be chaired by Prime Minister Hosokawa and composed of all ministers. This was subsequently set up in January 1994 and replaced the Joint Headquarters for the Promotion of Administrative Reform, which had been the highest interministerial organ within the government for promoting administrative reform under the former LDP government. The Joint Headquarters set up three working groups on deregulation, with ministers and the Prime Minister together with outside experts actively involving themselves in discussions. The Cabinet Secretariat and the MCA acted as coordinating support groups to the Headquarters and its working groups (Tanaka and Horie 1995, p. 249).

In February 1994 the government announced that it would deregulate a further 250 items over the short-term and ‘facilitate the coordination and streamlining of various procedures, such as the submission of notifications and reports’ in relation to an additional 531 items (Nakauchi 1994, p. 3). Although this was an impressive number, ‘many represented nothing more than an attempt to combine regulations in order to reduce overall numbers, with no actual change in outcome’ (Nakauchi 1994, p. 3).

In March 1994 a working group was established in the Administrative Reform Promotion Headquarters charged with considering deregulation in the four areas of housing and land, information and communications, distribution, and the further opening of Japan’s markets. The working group included Cabinet ministers from relevant ministries as well as persons from private industry and a number of academics serving as Headquarters’ specialists (Nakauchi 1994, p. 3).
The Hata administration which came to power in April 1994 inherited the deregulation brief from its predecessor. Hata’s personal commitment to deregulation was well known. In a 1993 campaign speech, he had called for ‘radical deregulation and decentralisation of power to localities’ in order to reform the ‘iron triangle of politics, big business and the bureaucracy created under the 1955-system of LDP one-party rule’ (Far Eastern Economic Review, 29 July 1993). His administration was short-lived, however, and failed to deliver on any of these issues during its three-month tenure in office. Indeed, when in June 1994 a Diet member under Hata’s government put together a draft list of government special corporations (tokushu hojin) that could be abolished, privatised, or otherwise reformed, the response from the bureaucracy was immediate and hostile: ‘The ministries hate you for this’, one bureaucrat said (Tokyo Business Today, August 1994, p. 19). In the face of such threats and daily petitions and visits from bureaucrats, the Hata government backed down. In the end, the final report from an administrative and fiscal affairs subcommittee of a Diet group studying bureaucratic reform failed to note a single special corporation in need of review (Tokyo Business Today, August 1994, p. 19).

In July 1994 the results of the deliberations of the Administrative Reform Promotion Headquarters led to the adoption by the new Murayama administration of a policy in which an additional 279 items were listed for deregulation (Nakauchi 1994, p. 3). Some of these items incorporated the recommendations of a Keidanren package of 196 deregulation proposals submitted to the government in May 1994. According to its publicly announced objectives, the policy aimed to expand domestic demand and promote imports, improve the quality of national life, create new industries and expand consumers’ choice, and narrow price differentials between Japan and the rest of the world (Tanaka and Horie 1995, p. 252). The package focused on four major fields: real estate, access to markets by both foreign and Japanese companies, information and communications, and financial services (Reuter Newswire — Far East, Reuter General News, 28 June 1994). It was described as ‘the most substantial move forward in several years’ (Nakauchi 1994, p. 3). Nevertheless, a number of problems remained, the main one being that ‘many items were left to be resolved over the medium term’ (Nakauchi 1994, p. 3). The best example was the abolition of the Large Scale Retail Store Law (Daitenho), which had been the focus of government deregulation policy, but which was ‘demoted to a ‘review’, over the mid-term’ (Nakauchi 1994, p. 3).

A few days later, Murayama gave a general policy speech in the Diet which reiterated the need to examine whether various regulations governing relations between the administra-
tion and economic and social activities still functioned appropriately or whether they distorted desirable economic and social activities. In pursuing this enterprise, Murayama emphasised the importance of the consumer viewpoint and the need to revitalise the Japanese economy and society. He undertook to promote the June deregulation plan and to formulate a five-year deregulation promotion program to facilitate new entrants into future new industries and to reduce differentials between Japanese and overseas prices in order to increase the nation’s purchasing power. In addition, he gave an assurance that he would endeavour to create a people-centred, simple, fair and transparent government and to eradicate the bad influence of vertically divided administration. He undertook to promote solid administrative reform through discussions concerning greater access to public information as well as supervising a review of the public officials system, the reduction and rationalisation of special corporations and the appropriate management of the numbers of central and local government personnel. He also made a specific commitment to the pursuit of deregulation through the activities of the Administrative Reform Committee (Gyosei Kaikaku Iinkai) (Nihon Keizai Shimbun, 19 July 1994) which had been created by legislation submitted to the Diet in March 1994. The Committee was composed of five members with its own independent executive secretariat. One of its primary functions was to monitor the progress of government deregulation efforts (Tanaka and Horie 1995, p. 250).

In early October 1994, the coalition government convened the Administrative Reform Committee with the aim of incorporating suggestions from the private sector into its proposed five-year deregulation and import program. Keidanren issued a comprehensive Deregulation Promotion Plan for Japan in November 1994. It called on the government to review all rules and regulations and to clearly explain the specific goals and processes of deregulation. It also requested that the government establish as its main goal a 50 per cent reduction in economic regulations in five years while taking steps to address employment problems and the concerns of small businesses (Keidanren Review on Japanese Economy, No. 148, February 1995, p. 1). According to the proposal:

The era of the government-controlled socioeconomic system, the dynamo that has driven Japan’s economic growth since the Meiji period, is coming to a close. If we are to chart a new course of growth for the 21st century — and create a new society that fulfils its responsibilities to both the international community and its citizens — we must create a new social and economic system. The days for maternal protection are over. We must create this new, deregulated society now
— one that is based on freedom of choice and supported by the principle of individual responsibility’ (Keidanren Review on Japanese Economy, No. 148, February 1995, p. 2).

According to the Keidanren proposal, ‘All existing economic regulations should be basically eliminated’ (Keidanren Review on Japanese Economy, No. 148, February 1995, p. 6). Other specific proposals to be discussed by the Administrative Reform Committee included simplifying standards and certification procedures for car parts and offering preferential tax treatment and financing for foreign companies looking to establish operations in Japan (Australian Financial Review, 17 October 1994).

In an interim deregulation report issued by the committee in mid-January 1995, 500 areas were listed to be deregulated out of a total of 1,800 requested. Out of the 500 areas listed, however, only 117 were described as substantive steps. Nor was any specific time-frame given for implementation of the deregulation measures (New Zealand Herald, 5 February 1995). In March 1995 the long-awaited five-year program was unveiled. The final decontrol package covered 11 main areas, such as distribution, housing and land use, transportation, and information and telecommunications. Altogether it comprised 1,091 items on which administrative rules and regulations would be eased in a bid to create an ‘internationally open economy’. In general terms, the plan promised to help narrow differentials in prices between home and overseas markets, to expand domestic demand and to promote imports as a means of reducing Japan’s trade surplus with the United States and other major trading partners. Amongst the 1,091 items, however, were many repetitions of what had been said before, and of the around 700 ‘new’ items, ‘most were trivial or implausible’ (Nakazawa 1995, p. 11). The program gave ‘no definite dates of enforcement or procedures for such measures, nor [did] … it affirm the primary policy of doing away with regulations in principle’ (Nakazawa, 1995, p. 11). In general, the five-year deregulation plan received a cool reception ‘for lack of substance’ (Editorial, The Japan Times, 26 July 1995).

In July 1995, the government released its first so-called ‘annual report’ on deregulation which was written by the EPA. Work on the report had begun under the Hosokawa administration ‘with the laudable objective of giving the public a true and plain picture of deregulation’ (The Japan Times, 26 July 1995) and had continued under the Hata and Murayama governments. The report was criticised in the media, however, for not describing regulations in plain and simple terms and for failing to explain why so many regulations still remained. The Japan Times (26 July 1995) editorialised that
In December 1995, the Administrative Reform Committee unveiled another deregulation report which incorporated 53 proposals for revising the government’s ongoing deregulation plan (The Nikkei Weekly, 11 December 1995). These included abolishing the law specifically regulating the behaviour of the giant Japanese telecommunications companies NTT and KDD, establishing a new system permitting long-term housing leases, removing restrictions on job replacement services, eliminating the ban on holding companies, relaxing the regulations on the construction of underground rooms, abolishing the regulations on the issuance of commercial paper by non-banking companies and liberalising the retailing of cigarettes. The committee declined to act in a number of key areas such as revising the price-maintenance system on books and newspapers, liberalising medical care services by private companies, abolishing the Large Scale Retail Store Law (which the committee criticised as the greatest impediment to retail competition in Japan), relaxing controls on drug sales and possibly breaking up the NTT Corporation.

The committee’s report received a less than enthusiastic reception from business leaders, economists and representatives of consumers. Managing Director of the Japanese Consumers’ Cooperative Union (Nisseikyo) said: ‘We value that the government is having an open discussion on deregulation policy, but the content of its report is not satisfactory for consumers’ (The Nikkei Weekly, 11 December 1995). The consumer group specifically attacked the committee’s failure to recommend the abolition of the Large Scale Retail Store Law.

In April 1996 the Japanese government announced a revised Deregulation Action Plan, in which there appeared to be ‘potentially meaningful deregulatory commitments, in such areas as telecommunications and financial services’ (USTR 4/2 Statement on New Japanese Deregulation Plan, 2 April 1996). Overall, however, the revised action plan fell far short of ambitious deregulation. Once again, the government did not commit itself to abolish the Large Scale Retail Store Law. It agreed only to undertake a study of the law to be completed in 1997.

In the judgement of the United States Trade Representative’s Office, the plan fell ‘far short of our expectations for ambitious deregulation as embodied in our recommendations"

Early in July 1996 the Director-General of the EPA presented a five-sector structural-reform plan to the Japanese Cabinet, urging the government to push ahead with structural reform of the economy and deregulation (The Nikkei Weekly, 5 August 1996). This was followed by the release of a report from the deregulation subcommittee of the Administrative Reform Committee that suggested the discussion of 38 new items in 10 areas for possible deregulation. The targets included telecommunications, transportation, energy, finance, medicine and welfare, and education (The Nikkei Weekly, 5 August 1996). While the paper deregulations received support from the head of the administrative reform group within Keidanren’s Economic Policy Bureau, they were also greeted with some criticism on the grounds that the government needed first to determine the extent to which previous deregulation requests had been implemented (The Nikkei Weekly, 5 August 1996). In late July 1996, the government’s economic white paper released by the EPA urged deregulation and more imports as a means of forcing domestic industries to become more productive and competitive and lowering the price gap between goods produced in Japan and those produced elsewhere (The Nikkei Weekly, 29 July 1996).

The Administrative Reform Committee is proceeding with its work on deregulation through its discussions and action plans due in March each year of the government’s five-year deregulation program. As part of its investigations, it will continue to take submissions from interested business groups such as Keidanren and the city banks and also receive proposals from the Japanese government. In advance of its March 1997 Action Plan, it presented a package of 51 deregulation proposals in areas including broadcasting fees, transportation fare cuts, lowering drug prices and greater freedom of choice in education in December 1996 (The Nikkei Weekly, 16 December 1996).

Other advisory committees of the government have also taken up the issue of deregulation. In July 1996, for example, Prime Minister Hashimoto instructed the Advisory Council on the Economy (Keizai Shingikai) to discuss the issue of deregulation. It subsequently presented a series of proposals in late October covering telecommunications and information technology, finance, medical treatment and welfare, employment and labour, land and housing, and the distribution sector (Reuters, Business InformationNews, 14 November 1996, from The Business Times, Singapore). These proposals were prepared as a basis for
further discussion involving ministry officials and are likely, therefore, to encounter bureaucratic resistance (The Nikkei Weekly, 21 October 1996).

On balance, the record of Japan’s deregulation process over the four years from 1993 to early 1997 has been one of modest success. Each set of deregulation proposals has received a mixed reception, earning far more criticism for what has not been achieved than praise for the progress that has been made. Much of the reform process has been dominated by high-sounding rhetoric from government leaders which underlines the economic and social value of deregulation but which in the final analysis is no guarantee of the actual delivery of change. Moreover, the spearhead of the reform process has been the specially-appointed advisory councils and committees. The effectiveness of these groups as agents of reform, however, is questionable. In most cases, their role is to advise only. They exercise only moral authority and the power to publicise issues. They have no means of compelling compliance on the part of regulatory authorities.

**Agriculture in the deregulation process**

Deregulation has been a key issue for Japanese agriculture (Kishi 1994, p. 6). Japan’s highly protected agricultural sector ranks alongside restrictive retail laws, the telecommunications monopoly and an over-regulated financial system as one of the prime targets for deregulation. The record on agriculture, however, is even more limited than in these other sectors. In some cases, deregulatory recommendations have been implemented, but in many cases these have merely intimated future directions for agricultural policy or listed items for review and investigation.

In the September 1993 emergency stimulus package, the government announced it would slash the tariff on raw sugar coming into the country. The size of the tariff cut was to be announced later and implemented from April 1994 (The Australian, 17 September 1993).

Opening of Japan’s rice market and revision of the Food Control Law (governing rice collection, distribution and sale) were a focus of debate within the Hiraiwa Advisory Group appointed by the Hosokawa government in September 1993 (Kyodo News, 16 September 1993). A majority within the Group supported the idea of specifying rice liberalisation within the text of their report, but it was omitted because of the fact that the issue was the subject of negotiations at the Uruguay Round. On the list of 500 economic and social regulations attached to the Interim Report of the Group, there were a number of agricultural laws,
including the Food Control Law (price regulation), the Agricultural Land Law, the Law Concerning the Development of Agriculture Promotion Areas, the Land Reclamation Law and Pasture Land Law (land regulation), the Law Concerning Price Stabilisation of Livestock Products, the Law Concerning Deficiency Payment of Raw Milk for Processing, the Law Concerning the Price Stabilisation of Sugar and Raw Silk and Cocoon Price Stabilisation Law (price supports) (Tashiro 1994, p. 26). Also on the list were the 12 items under import restriction at the time (Kishi 1994, p. 8).

Amongst the five pillars of reform proposed in the final report of the Advisory Group submitted in December 1993 were two relating to agriculture: the formation of an economy filled with intellectual and creative vitality which included the ‘establishment of an agriculture with vitality’ (katsuryoku no aru nogyo no kakuritsu) and the provision of a free and large market which included taking the lead in endeavours for the success of the Uruguay Round (Kishi 1994, pp. 7, 8). More specifically, the report referred to the utilisation of market mechanisms through deregulation of production and marketing in agriculture, and import expansion through deregulation. The report advocated raising productivity in order to encourage the development of an internationally competitive agriculture, the fostering of future operators of agriculture, the efficient and effective development of the production base and the concentration of farm land with the ingenuity of agricultural operators (Tashiro 1994, p. 27). The fundamental objective of the report was to promote greater agricultural efficiency and competitiveness through deregulation and import expansion (Tashiro 1994, p. 27). No specific recommendations flowed from this broad statement of objectives, however, nor was there any explicit reference to rice. Minimum access to Japan’s rice market (rather than tariffication) was agreed to as part of the UR trade agreement in December 1993. As part of this agreement, all other agricultural import barriers were also tariffied.

In the July 1994 package of the Hata government, one of the measures announced was to make idle agricultural land available for residential use (Reuter Newswire — Far East, Reuter General News, 28 June 1994). This encapsulated a Keidanren recommendation that ‘the conversion of abandoned rice fields to building lots’ (Nakauchi 1994, p. 3) should be undertaken. But amongst the matters postponed for medium-term resolution was the ‘revision of regulations governing market entry … for the retail sale of liquor, rice and tobacco products’ (Nakauchi 1994, p. 3).

In early October 1994 the newly-appointed Administrative Reform Committee was slated to discuss specific proposals with respect to relaxing tariffs on agricultural products
and alcohol (Australian Financial Review, 17 October 1994). In Keidanren’s comprehensive proposal to the committee for a ‘Deregulation Promotion Plan for Japan’ of November 1994, agriculture was listed (along with transportation, distribution, trade, competition policy, public procurement, energy, finance and insurance, securities, public-purpose institutions, and others such as land use and housing) as one of the key areas for deregulation, with a specific focus on a review of agricultural price support and state-trading systems (Keidanren Review on Japanese Economy, No. 148, February 1995, pp. 7–8). Specifically, Keidanren called for: ‘Appropriate implementation of [a] New Food Law (which promotes new product entry into retail business, etc.), review of [the] price support system (for wheat, dairy products, pork, etc.)’ (Keidanren Review on Japanese Economy, No. 148, February 1995, p. 6). and also ‘Limitation on establishment of tax-sponsored public-purpose institutions’ (Keidanren Review on Japanese Economy, No. 148, February 1995, p. 6). including those in the agricultural sector. Under ‘Areas in Which Government Should Promote Deregulation’, Keidanren suggested that entry regulations be implemented to adjust balance of supply and demand under the Sericultural Law, regulations on new or expanded facilities such as government trade monopoly commodities (nine items including salt, rice, barley and wheat), under price regulations, public utility charges such as the government purchase and selling price of rice, wheat and barley under the Food Control Law, under price maintenance systems, beef and pork under the Livestock Price Stabilisation Law, sugar cane and sugar beets under the Sugar Price Stabilisation Law, designated dairy products and milk used in manufacturing under the Law Concerning Deficiency Payment of Raw Milk for Processing, and raw silk under the Raw Silk and Cocoon Price Stabilisation Law (Keidanren Review on Japanese Economy, No. 148, February 1995, pp. 7–8).

The fact that items are slated for discussion or are encapsulated within recommendations from interested groups are, however, no ultimate guarantee of deregulatory action on the part of the government. In the event, agriculture came through with relatively light treatment in the March 1995 deregulation plan. Amongst the 1091 items in the plan, those under MAFF jurisdiction amounted to 130 (land improvement — 15; distribution — 54 (those relating to Food Control — 33); standards, licensing and export and import — 48 (of which the Japan Agricultural Standard [JAS] — 10, and veterinary medicines — 17); and others — 13 (Norinsuisansho 1995) The emphasis in the listing was on technical items rather than on those central to the government’s broad agricultural support program. The recommendations included measures such as recognising the use of farmland for residential purposes, shifting
the rice trade from a licence to an approval system and the adaptation of JAS to international standards (Nakazawa 1995, p. 11). Another less significant item was relaxation of the restrictions prohibiting the use of imported feed-corn for food and imports of the whole corn cob (Personal interview, MAFF official, Tokyo, July 1995).

In July 1995, in response to the suggested revision or abolition of standard import prices set for pork, MAFF replied that the request was ‘difficult to meet’ because the current system is more effective in stabilizing domestic supply and demand and price (The Daily Yomiuri, 18 July 1995). The Administrative Reform Committee’s deregulation package of December 1995 subsequently deferred action on deregulation of agriculture (along with medicine and welfare) saying that such areas needed more study (The Nikkei Weekly, 11 December 1995). This was despite an earlier statement from the Committee that it would recommend abolition or review of subsidies for farmers (The Daily Yomiuri, 12 July 1995). Committee members had called for a review of the system, ‘saying that such measures as income compensation for farmers should be handled in a different way if the purpose is part of the government’s policy to nurture regional agriculture’ (The Daily Yomiuri, 12 July 1995). Their main proposals for reducing agricultural subsidies concerned price support. This was an issue on which MAFF fought hard, however, arguing that the subsidy system for farmers was necessary to promote regional agriculture (The Daily Yomiuri, 12 July 1995). The only deregulatory reform concerning agricultural advanced by the Administrative Reform Committee was a series of proposals to relax regulations on farmland, specifically to allow joint stock companies to own farmland (Japan Agrinfo Newsletter, Vol. 13, No. 10, June 1996, p. 8).

As part of the restructuring of public corporations (tokushu hojin), MAFF examined the option of merging the Silk and Sugar Price Stabilisation Corporation, (SSPSC) (Santo Jigyodan) with the Livestock Industry Promotion Corporation, or LIPC (Chikusan Shinko Jigyodan). In the event, MAFF maintained both corporations with minimum reforms, although the LIPC expressed its intention to deregulate 1–2. Those opposing such restructuring and consolidation argued that it only had limited potential to save money in terms of salary savings. Although it might mean fewer director-generals and, within the corporations, fewer director-generals of general affairs, the number of other officials would probably remain constant and therefore salary reductions would not be great, and deregulation would not necessarily follow (Personal interview, ex-MAFF official, Tokyo, July 1995). In the event, the LIPC and the SSPSC were amalgamated in October 1996 to form the Agriculture
and Livestock Industries Corporation (Nochikusangyo Shinko Jigyodan) although the new body incorporated the full range of functions of its predecessors.

Other more substantial reforms in agriculture in the early 1990s have not been an outcome of the government’s deregulation initiatives but consequent upon Japan’s agreement to the UR trade agreement. This, however, does not prevent MAFF conveniently recognising them as part of its contribution to the deregulation process. It considers that its main act of deregulation has been the passage of the 1994 New Food Law replacing the 1942 Food Control Law. This new law encapsulated the most fundamental postwar restructuring of the food control system governing the domestic trade in staple grains, principally rice. Amongst other things, the revision allows for greater competition in rice collection and distribution, thus potentially undermining the previously privileged position of the nationwide agricultural cooperative organisation (Nokyo) in these markets. Under the New Food Law, private companies can now be registered as rice collectors, wholesalers and retailers. The role of the government in this market has also become smaller. The Food Agency of MAFF will now only buy domestic rice for the purpose of stockpiling at the same time as conducting the state trade in imported rice. The producer rice price (previously the focus of furious lobbying by Nokyo representing its rice farming members) will only apply to rice sold by farmers to the government for stockpiling, which will be limited to about 1.5 million tonnes. The Food Agency will take a loss on this transaction, but this cost will be justified in terms of ‘stable supply’ (Personal interview, Food Agency official, Tokyo, July 1995).

Even though the rest of Japan’s agricultural imports have been tariffied, in many cases high tariffs prevail and administrative support systems for individual products have been preserved. Wheat and barley benefit from high import tariffs plus domestic price intervention; beef and raw milk for processing are subject to support price intervention and high tariffs; there is no price intervention for pork but a differential tariff system applies on imports; processed milk products are not subject to an intervention system, but a very high tariff applies; vegetables are subject to price intervention and import tariffs of 3–10 per cent; sugar has some intervention plus an import levy and a tariff; and silk has the benefit of support price intervention as well as a combination of high and low tariffs depending on quantities imported, plus state trading for imports coming in under the low tariff (Interview, ex-MAFF official, Tokyo, July 1995).

The agricultural sector as a highly controlled and administered industry will remain a natural target for deregulation, as will its associated food distribution and marketing industries.
While in theory Japanese agriculture has entered an era of international competition, many of the supports and controls remain in place such as production subsidies, price support and stabilisation schemes, state trading, relatively high import tariffs and rice import quotas. The report of the deregulation subcommittee of the government’s Administrative Reform Committee in late July 1996, for example, listed agricultural products as one of the targets for possible reform. This was followed up by a proposal in December 1996 to liberalise the mechanism for setting wheat prices and milk distribution (*The Nikkei Weekly*, 16 December 1996).

Furthermore, the agricultural finance system and the agricultural cooperatives themselves are slated to undergo a process of government-sponsored restructuring. For example, the plan to reform the financial system announced by Prime Minister Hashimoto in October 1996 included a proposal to place agriculture-related financial institutions under the jurisdiction of an organisation that would assume the functions of bank inspection and supervision from MOF (*Reuters, Business Information News*, 15 November 1996, from *Jiji Press Newswire*). The pace of change within the agricultural sector, however, will be dictated by considerations very much more centred within the agricultural policy system itself rather than on ‘exogenous’ deregulation principles.

‘Iron triangles’ of regulation

The broad process of deregulation will continue to be hindered by the strength of institutions nested in the regulatory environment. The essential problem will remain one of political and bureaucratic resistance to change.

The lack of enthusiasm for deregulation amongst many Japanese politicians derives from their interdependency relationship with the vested interests which have grown up around the rents and benefits that regulatory systems provide. In particular, regulation has provided selective advantages to the socio-economic coalition underlying Japan’s postwar conservative political regime — namely, big and small manufacturing businesses, service-sector businesses and primary industry. These sectoral interests rely on politicians to act as brokers on their behalf in order to extract, maintain or increase rents and income supports from administrators. Brokers cluster together in LDP policy tribes (*zoku*) with connections to specific sets of sectoral interests, and with the connivance of the bureaucracy, harness rents and other benefits as political goods for distribution to their supporters. In exchange they
receive electoral goods such as political funding and voting support. Deregulation means abolishing the vested rights of these key support groups, with its attendant political costs. While Diet members might express support for deregulation as a general principle, if a particular item of deregulation appears to threaten an interest they represent, they will staunchly oppose it. In effect, Diet members have avoided deregulation in their own backyard through trade-offs with their colleagues. Every special interest is some politician’s ‘sacred cow’ and so all ‘sacred cows’ get protected (Yasushi and Shigeki 1994, pp. 20–3).

For the ministries and agencies, on the other hand, regulation generates the core elements of bureaucratic power which derives from a mixture of administrative controls and ministerial expenditure. Authorisations and licences, for example, are the monopoly of bureaucrats, and, according to one Japanese scholar, have often provided breeding grounds for political corruption (Nitta 1994, p. 20).

Furthermore, national expenditure consequent upon bureaucratic regulation has created ‘hotbeds’ which sustain the bureaucratic class (Nitta 1994, p. 20). For example, integral to regulatory regimes are the numerous extra-ministerial groups (gaikaku dantai) and public corporations spawned by the ministries and agencies of government. These quasi-bureaucratic agencies are funded by the national general account budget, 38 special account budgets and 11 government-affiliated agencies budgets as well as the Fiscal Investment and Loan Program (FILP). In most cases, these groups established on the basis of regulations provide lucrative post-retirement posts for officials through the process of amakudari [descent from heaven] (Nitta 1994, p. 20).

Cutting back on these semi-administrative agencies of government is seen as part and parcel of deregulation insofar as it helps to generate a climate conducive to eliminating the rules and regulations administered by these agencies. The prospects for such bureaucracy-engineered change, however, are dim because deregulation involving privatisation of public corporations and disestablishment of the gaikaku dantai would diminish ministry budgets and cut back on the available posts for senior government officials to assume on retirement. An iron law of bureaucracy is ‘never [to] undertake administrative streamlining that runs counter to their own interests’ (Nakazawa 1995, p. 11).

Bureaucratic entities thus oppose deregulation because they object to the curtailment of their power or any change to existing power structures. They will not unilaterally initiate deregulation unless they
face the situation which cannot be neglected, unless they are under strong criticism from home and abroad, or unless the merits of the reform are clearly evidenced. Especially, to the issue such as deregulation which might affect their power and authority, ministries and agencies usually show negative attitudes, unless other ministries and agencies are required to make the same efforts. Accordingly unless each ministry or agency becomes convinced of the necessity of the reform, either for itself or after being persuaded, it is not likely that the reform will be pushed forward. (Tanaka and Horie 1995, p. 247).

In other words, a political-bureaucratic-vested interest triangle lies at the heart of all Japanese regulatory systems. In Funabashi’s words, the “bureaucracy and its symbiotic “policy tribes” in the LDP have formed “iron triangles” with protected industries to resist fundamental economic and social reforms’ (Funabashi 1994, p. 25). One of the participants in the Hiraiwa Group, for example, commented that it was ‘important to acknowledge that the group was prevented from drafting a forceful thesis worthy of the name of reform by a veritable wall of vested interests that it was powerless to topple’ (‘Keizai Kaikaku Kenkyukai no Chukan Hokoku’ 1993, p. 1). Similarly, the Interim Report of the Advisory Group acknowledged that: ‘Past deregulation efforts had been blunted by vested interests and excessive private-sector reliance on government support’ topple’ (‘Keizai Kaikaku Kenkyukai no Chukan Hokoku’ 1993, p. 1). Deregulation is, therefore, opposed by these groups because it attacks the fundamental basis of the ‘iron triangles’ bound together by the regulatory-rent framework.

A question of political leadership

The deregulation initiatives since 1993 suggest that the impetus for reform is likely to be sustained by Japan’s political leaders rather than by its bureaucrats. The ruling parties have set up the advisory committees which have called on the ministries to submit items for deregulation. In response, the bureaucrats have tended to ultimately control deregulatory outcomes because they have had to agree to ‘volunteer’ various items for reform. This accords with the formal division of responsibilities under the current system of public administration in Japan. Each ministry or agency ‘has the primary responsibility for [deregulatory] reform’ (Tanaka and Horie 1995, p. 24). This means that the bureaucracy is basically in control of detailed deregulation outcomes. They decide what is relevant or
redundant. As a result, it is possible for ministry officials to keep major regulatory powers unto
themselves by relinquishing those that are less central to their own interests and to slow the
pace of change by offering up only small numbers of reforms at each step in the deregulation
process.

The predominant image of the deregulation process is, therefore, one of politicians
acting as petitioners to the bureaucracy and as needing to assert their will over recalcitrant
bureaucrats. The ‘five-sector structural reform plan’ submitted to Cabinet in July 1996 by the
former Director-General of the EPA, for example, was designed ‘to curtail burgeoning fiscal
spending and break through bureaucrats’ resistance to moves that threaten their interests’
(The Nikkei Weekly, 15 July 1996). The former Director-General also proposed that political
leaders take the initiative in pushing through structural reform and deregulation of the
economy, a suggestion that was taken up by Prime Minister Hashimoto in instructing the
Advisory Council on the Economy (Keizai Shingikai) to discuss the issue of deregulation
without input from related ministries or industries (The Nikkei Weekly, 21 October 1996).

The initiative for deregulation logically rests with the politicians for other reasons.
Although political parties may represent particular groups of special interests, they also have
to be sensitive to issues that are prominent in the public arena and particularly to those around
which a national consensus is forming. On these grounds there are incentives for political
leaders to present themselves as credible agents of change. General trends in public opinion
cannot be ignored in the context of a democratic electoral process and nor can appeals that
cite the national economic interest over special interest groups. In contrast, the jurisdictional
consciousness of the ministries gives them a narrower, more self-centred view, and thus a
more protectionist attitude towards preserving their own powers.

Further, those in government who can be most relied on to pursue the deregulation
enterprise are the executive leaders of the political parties in government who are concerned
about Cabinet popularity and the overall performance of their administration, and who are less
concerned about their own personal political survival at the next poll. This category of
politician can be contrasted with the average, special-interest backbencher who is ‘preoccu-
pied with either staying afloat [by winning the next election] or jockeying for power [within
their parties]’ (Orr 1994, p. 41).

These differences account for the dual structure of policy orientation between party
leaders and backbenchers in Japan. The executive leaders of the party in government are
concerned about the party’s popularity in government and the general performance of their
administration. This means they are more likely to take a broader perspective on any particular policy issue in a desire to reflect the party’s overall interest and the so-called ‘public interest’ respectively. They will, therefore, be less concerned about protecting narrow special interests of particular groups or sectors. Furthermore, party leaders in government will have had long tenures in office and possess stable support bases and are, therefore, less concerned about their own personal political survival at the next poll. This particular combination of factors means they can be expected to take a more reformist position on most issues. It is at this level that policy change of the more far-reaching and visionary sort within the ruling party can be expected to be pursued. Party leaders commonly articulate broad visions of the direction in which they want the country to go. These ‘visions’ are usually cast in very abstract terms and rarely articulate concrete policy alternatives, but they do present political leaders with an opportunity to speak on behalf of diffuse interests that cut across election districts, such as those centring around the issues of deregulation, foreign policy, consumer prices, enforcing the Anti-Monopoly Law, market opening and so on (Cowhey 1993, p. 318). It is at this level that party-political support for deregulation is most commonly expressed in Japan, although specific proposals are left to advisory committees to advance.

Party backbenchers, on the other hand, are concerned with cultivating and maintaining their support networks with particularistic policies and personal favours, not broad national policies (Cowhey 1993, p. 316). The basic thrust of their political orientation thus fundamentally contradicts the broader ‘national’ orientation of their leaders, particularly on issues of deregulation and administrative reform. This duality has been accommodated, however, because of the high level of generality in which Japanese political leaders normally articulate policies. Formulating concrete policy alternatives in Japan carries too high a degree of political risk because it provides a clear target around which opposition can mobilise. And for a catch-all party like the LDP, it potentially limits rather than expands its support base.

The political future of deregulation is further complicated by the fact that its main political champions can be found in the ranks of the opposition parties. These include the newly established Democratic Party (Minshuto) formed in September 1996 by a group of younger politicians from the Social Democratic Party (SDP) and New Party Harbinger (Sakigake). The Democratic Party may form the kernel of a new political opposition force that contrasts more strongly with the LDP and the other main opposition grouping, the New Frontier Party (Shinshinto). It has assumed a centre-left stand on social welfare issues and
defence policy matters and is known to support administrative and economic reform. One of its key members, Kan Naoto, gained tremendous popularity by exposing a cover-up by the Ministry of Health and Welfare of the sale of blood contaminated with HIV. Kan’s standing in the electorate was interpreted as reflecting the groundswell of public opinion in favour of reforming opaque and arbitrary administration, thereby enhancing bureaucratic accountability and transparency. Also fuelling the public hostility towards bureaucrats was MOF’s handling of the failed *jusen* housing-loan companies and its failure to take responsibility for the issue.

Shinshinto, on the other hand, contains the remnants of the reformist Japan New Party (Nihon Shinto, formerly led by Hosokawa) and the Hata group (so-called Koshikai), which was previously in the Renewal Party (Shinseito), which broke away from the LDP in 1993. Shinshinto’s basic ideology has consistently been one of bold reform — of government, economy and society — and it has not changed this fundamental position since its formation in December 1994. For example, it criticised the government’s March 1995 deregulation plan as insufficient because it totally ignored 450 items described by each government ministry as ‘difficult to deregulate’. It also branded the 1,091 deregulation items contained in the deregulation program as ‘mostly slight’, saying many were those already deregulated or slated to be deregulated or those related to procedures (Japan Economic Newswire, 1995). The Shinshinto contains a far greater number of newer, younger Diet members than the LDP, with a much greater proportion of its Diet membership elected from urban areas (George Mulgan 1997). This makes it more favourably disposed towards the interests of urban consumers who stand to benefit the most from deregulation measures.

At the present time, however, Shinshinto’s main problems are internal fracturing and poor survival prospects in the wake of the October 1996 elections. From the beginning, the party has been a fragile alliance of at least five groups, and its cohesion has far from strengthened over time. In December 1996, the Hata group left the party to form the Sun Party (Taiyoto). Moreover, while Shinshinto leader Ozawa Ichiro believes strongly in the principle of politicians asserting their dominance over the bureaucrats, the members of Ozawa’s own former organisation, the Renewal Party are increasingly divided into pro-anti-Ozawa camps (Sato 19—, p. 22).

These uncertainties in Japan’s party politics make prospects for deregulation difficult to predict. On the one hand, not only has the LDP-led government been freed from electoral considerations to tackle difficult reforms, but the party’s ability to respond to issues that have
captured the public imagination has been one of the keys to its long-term survival. Furthermore, the adoption of a stronger pro-reform stance by the new Opposition parties may force the LDP to assume a more reformist position itself. On the other hand, the LDP’s hold on power as a minority government is tenuous enough to weaken its position in the Diet and undermine its powers of policy initiative relative to the bureaucrats. While the LDP may have proved itself as the single, most dominant entity amongst Japanese political parties, its position in the policy process has been significantly diminished in relation to the bureaucracy because of the emergence of a system of coalition-style party politics. The LDP’s lack of a Diet majority in its own right and its need to rule with the support of other groups may mean that the political side of the equation remains relatively powerless, and certainly not strong enough to take on the bureaucracy. The LDP has traditionally exerted strong policy-making power when it held a dominant position in the Diet — in the post-1980 and 1986 election Diets, for example. Its convincing victories in these elections considerably strengthened its hand vis-à-vis the ministries (Mainichi Shimbun, 9 August 1986). The converse is also true: the weaker the position of the LDP in the Diet, the weaker its negotiating position with respect to the bureaucracy. Using this logic, the LDP in coalition has undergone a decline in its policy strength relative to the bureaucracy since 1994. Another factor is the willingness of the LDP to tackle reform issues given that the party presides over a long-established collusive relationship with the bureaucracy and an entrenched system of politically strategic distributive politics which make it harder for the party to challenge officials and supporters with a vested interest in regulatory systems.

In the final analysis, the essential question of Japanese deregulation is whether decisive political leadership can materialise to confront and overpower entrenched bureaucratic interests. Strong political leadership is regarded as a vital ingredient for deregulation because the bureaucracy cannot be expected to reform itself from within. Although some bureaucrats concede the need for reform, they are seriously skeptical about the ability of Japanese politicians to provide the necessary leadership to tackle the issues constructively.

Furthermore, vested interest groups are highly organised and stand to bear concentrated costs if reform is advanced. Their interests are opposed by the broad mass of consumers, who are in a numerical majority but who are unorganised and bear only diffuse costs from regulation. This kind of political asymmetry is integral to the perpetuation of all kinds of regulatory systems (such as agricultural protection) which benefit special interests at the cost of the broader majority interest.
Progress in deregulation will, therefore, be determined by the capacity and will of the politicians to tackle vested interests, the willingness of the bureaucracy to accept a radical curtailment of its power and the tolerance of those with vested rights to a reduction in their regulatory benefits. Private sector attitudes are also important but Japanese business is divided on the deregulation issue. Although companies ‘would adapt to change first because their survival would depend on it’, certain business sectors have openly opposed deregulation (Nakauchi 1994, p. 6). The possibility that deregulation will require a strengthening of the Anti-Monopoly Law, for example, is not popular amongst certain sections of Japan’s corporate world. The fact remains that Japanese industrial structure is a mixture of highly competitive export industries, such as automobiles and consumer electronics, and low productivity industries ‘that are dependent on regulation of local markets for survival’ (Auer 1995, p. 49). Businesses operating in fields with restricted entry, for example, usually oppose abolition or deregulation of entry regulations because they will increase competition and protection for inefficient businesses will be withdrawn (Tanaka and Horie 1995, p. 254). The second Keidanren survey of member businesses and industries revealed ‘strong support for maintaining regulation’ (Nakauchi 1994, p. 6). Keidanren executives have also noted the ‘trend in some business circles is to support the concept of deregulation in general, but to oppose to [sic] many specific items’ (Nakauchi 1994, p. 6). When, for example, Keidanren demanded an extra 30 items for deregulation for the September 1993 Hosokawa package, some of its own industry group members claimed that ‘they had never asked it to demand such extensive deregulation’ (Tazaki and Kudo 1993, p. 17). Business spokespersons defend the powers of the bureaucrats on the grounds that ‘they keep out newcomers, and generally look after us. We accept this cosy state of affairs because it has kept us out of trouble for so long, and we are not likely to support deregulation to the point where it … results in any loss to our own interests’.

In recognition of possible business resistance to proposed deregulatory reforms, Prime Minister Hashimoto in November 1996 made a deliberate appeal to members of the Japan Association of Corporate Executives (Keizai Doyukai) ‘not to oppose deregulation purely for the sake of the vested interests of individual industries’, (Reuters, Business Information News, 12 November 1996, from Jiji Press Newswire), whilst reiterating his resolve to undertake a fundamental and far-reaching reform of Japan’s economic structures and its fiscal and administrative environments.
Conclusion

Every Japanese Prime Minister since Hosokawa 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 (cellular 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 (*The Nikkei Weekly*, 30 September 1996), assessments of progress in Japan's deregulation have yielded mixed results. The white paper of the MCA submitted to the Cabinet in July 1996 noted that deregulation was having a 'positive effect in several business areas', although, in another report, the MCA noted that government ministries were 'reluctant to respond to requests for deregulation from the private sector' (*The Nikkei Weekly*, 15 July 1996). 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 (*The Nikkei Weekly*, 15 July 1996).

The latest 'Economic Survey of Japan' compiled by the EPA — subtitled 'Reform will Clear Up the Prospects' — listed several fields for systemic reform including interbusiness relationships and public sector reorganisation (*The Nikkei Weekly*, 5 August 1996). While reformist rhetoric such as 'respect for market functions' and 'establishment of freedom and responsibility' punctuated the report, what was pointedly absent from the list was any mention of the elimination of administrative regulations that would obstruct the implementation of the report's reformist goals.

Just how far deregulation will proceed in the years ahead remains to be seen. One thing is clear: 'It is easier said than done' (Editorial, *The Japan Times*, 26 July 1995). Deregulation currently risks 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, does not automatically result in a reduction in administrative rules and regulations or translate into a decline in ministerial power. The question remains, for example, whether the 'Hashimoto Vision' which was announced just prior to the election and which proposed to halve the number of ministries and agencies will amount to anything more than a reshuffling of the current administrative setup. If so, it is highly problematic whether it will be effective in reducing administrative intervention in the private sector. 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 (shorei), regulations (kisoku) and enforcement ordinances (sekorei), acts of ‘administrative disposition’ and the use of informal instruments such as ‘administrative guidance’.

‘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.

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. Electoral reform may engender the necessary conditions for such a change. Both the new single-member districts and the regional proportional representation districts are conducive to the emergence of more distinct, party-based policy choice for voters. This will tend to encourage a more urban-focused, 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 ‘citizen politics’ to a greater or lesser degree in order to retain any prospect of gaining a majority of seats in the House of Representatives. In the 1996 elections under the new electoral system, all parties took a stand on broad national issues such as administrative and fiscal reform (Kitaoka 1997, p. 14). Furthermore, all parties ‘saw revitalization of the private sector through deregulation as imperative’ (Kitaoka 1997, p. 14).

What is probable is that 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 a sweeping deregulation of Japan’s financial system by 2001. In March 1997, the advisory committee attached to the Office of the Trade and Investment Ombudsman proposed 19 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 (The Nikkei Weekly, 24 March 1997). In April 1997, the Conference on Administrative Reform, a new bureaucratic reform body established by the Prime Minister in December 1996 (The Nikkei Weekly, 16 December 1996), recommended that government ministries and agencies hand the power to supervise private companies and grant licenses to businesses over to independent agencies (The Nikkei Weekly, 14 April 1997). 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.

A plethora of newly established deregulation panels under various ministries or other government offices is now churning out reform proposals (The Nikkei Weekly, 16 December 1996) in addition to the Deregulation Subcommittee of the Administrative Reform Committee and the Conference on Administrative Reform. Whether the discussions and resulting proposals will actually produce reforms that reflect the input being made remains to be seen. The Hashimoto government is unlikely to push for a dramatic or radical deregulation program because of its close links to the bureaucracy 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’ (Kitaoka 1997, p. 16). Nevertheless, the momentum of deregulation is likely to be maintained and even accelerated. The impetus for change is now such that the question of whether or not to accept the principle of deregulation is no longer debated in Japan; it has become a fundamental policy axiom.

Notes

1. In Japanese, this means, literally, the ‘relaxation of restrictions’ (it does not mean their abolition).

2. This view is integral to the ideology of reform set out in the Preamble to the Interim Report of the Advisory Group for Economic Structural Reform in November 1993. It stated: ‘Official regulations have contributed to industrial development and the stabilisation of the national livelihood to date, but now they increasingly serve to intensify the rigidity of the economy and society and impede socio-economic reform.’ ‘Keizai Kaikaku Kenkyukai no Chukan Hokoku’ (1993).

3. In July 1995, the Economic Planning Agency stated in its annual white paper entitled ‘Toward the Revival of a Dynamic Economy in Japan’ that: ‘The economy will have
nowhere to go if the nation maintains its closed policies, such as import restrictions … inward investment curbs and domestic regulations, for fear of paying the adjustment costs’. *The Japan Times*, 26 July 1995.

4 As *The Japan Times* (26 July 1995) editorialised, deregulation is ‘an effective cure … for Japan’s economic malaise which stems in part from overregulation. It is a way of reshaping the nation’s economic system that has fuelled its postwar growth, a system snugly protected by a complicated web of official controls. Deregulation will stimulate competition, create new business opportunities and improve our living standards. It will also reduce the cost of government and enhance transparency and fairness in administration’.

5 Isao Nakauchi, Vice-Chairman of Keidanren and Chairman, President and Executive Officer, Daiei Inc., stated that: ‘To achieve full economic recovery, supported by structural expansion in domestic demand, we need extensive deregulatory measures that will reform Japan’s economic structure and permit the creation of new businesses and industries. Comprehensive deregulation is crucial to the creation of an economic society which is in tune with globalization and which benefits ordinary consumers, alleviating price differentials between domestic and overseas markets and opening up Japanese markets’ (Nakauchi 1994, p. 2).

6 Deregulation became part of the US market access push with the Structural Impediments Initiative. Former American Ambassador to Japan, Michael Armacost, commented on the growing conviction that Japan’s regulatory system ‘which once guided the “economic miracle” [was now working] to diminish economic efficiency and stifle innovation’. (See Armacost 1994.)

7 This is a quote from former Prime Minister Murayama’s inaugural policy speech to the Japanese Diet in July 1994.

8 These other themes were spelled out in the white paper of the Management and Coordination Agency issued in July 1996.

9 This is a quote from Nobutsugu Shimizu, former chairman of the supermarket chain, Life Corporation, quoted in Tazaki and Kudo 1993, p. 17).

10 Tanaka and Horie, ‘Deregulation’, p. 243. They give the examples of regulations ‘aimed at fostering an infant industry, protecting a declining industry, protecting small and medium enterprises’ etc. Agricultural protection would fall into this category.

11 Tanaka and Horie (1995, p. 243) describe the objective here as ensuring ‘the sound growth of industry and consumers’ interest by regulating the qualificatin and/or the number of entrants, the type and/or volume of capital investments and the volume and/or the price of goods and services, when the free market mechanism is deemed to jeopardize the stable supply and prices of certain goods and services’.

12 This argument has been further developed by Richard Katz (1997, pp. 153-181).
Tsuruta (1994, p. 17) points out that the 40 per cent figure is only based on obvious economic regulations, whereas in fact there are social regulations whose effect is mainly economic. Tanaka and Horie (1995, p. 243) also emphasise that there are many social regulations ‘that function, in effect, as economic regulations’.

A good example is the Petroleum Business Law, enacted in 1962 to control the oil-refining industry.

This is the category of administrative permissions, authorizations, licensing, patents, approvals, certifications, examinations, inspections, tests, designations, registrations, notifications, reports and so on. Tanaka and Horie, ‘Deregulation’, p. 242.

Tanaka and Horie (1995, p. 242) define administrative guidance as ‘an action, within the scope of the functions and responsibilities provided for by an establishment law of each administrative organ, which does not have a compulsory effect such as to restrict the right of the people or put duties on them but which encourages or induces a certain action or inaction of the private parties with the cooperation of those whom administration is directed to.’

According to Tsuruta (1994, p. 18) this is their intention as well as their effect.

The extent to which it reflects fundamentally different assumptions about the need and purpose of regulation is the subject of some debate. Schaede (1994, p. 6) has made the point, for example, that: ‘Regulation in Japan is based on totally different assumptions concerning markets and the roles and responsibilities of government in economic growth. The underlying presumption is that markets, left to their own devices, will find only suboptimal allocations and solutions to national goals of economic growth. It is the obligation of the government to ‘take care of the markets’. If regulators remain passive, the public feels that they default on their duties. In this perspective, regulation assumes a positive connotation’. As an example of this perspective, Shibusawa Masahide argues strongly that deregulation is not needed because regulations ‘have been instituted to secure the welfare of various groups of people, which they have indisputably done’. Quoted in Mike Millard (1996, p. 39).

It functioned in this way during the recession following the oil shock of the early 1970s for example.

This was the report of the Research Council for the Adjustment of the Economic Structure for International Harmony (Kokusai Kyöcho no Tame no Keizai Kozo Chosei Kenkyukai, or Keikoken) under the chairmanship of Maekawa Haruo.

Calculated from the figures in Table 2 in Nitta (1994, p. 20).

The heading of this section in the Interim Report was ‘Keizai-teki Kisei wa ‘Gensoku Jiyu’ ni’, in other words, ‘all regulation should be abolished, in principle’. Keizai Kaikaku Kenkyukai no Chukan Hokoku’ (1993, p. 1).
The list also included Mr Makino from the American Chamber of Commerce in Japan.

This translates literally as 'special juridical person'. Each is established under its own  
organising legislation.

It is unclear whether this is the same report as that mentioned in The Daily Yomiuri,  
60 percent of deregulation that people have suggested is ‘difficult to meet’’. A total of  249 opinions and requests made.

The five sectors targeted for deregulation were telecommunications, business  
logistics, finance, land/housing and employment. Its main features were a proposal for introduction of more competitive telecommunications rates and the loosening of  
rules governing building size and lot ratios in metropolitan areas. The Nikkei Weekly,  
15 July 1996.

According to Kishi (1994, p. 8), Hosokawa secretly talked to Hiraiwa, telling him that  
‘it was all right to discuss the rice issue but do not refer to the issue in the Interim Report because I understand the exact point’, referring to Japan’s secret agreement with the United States to allow minimum access to Japan’s rice market in lieu of  
tariffication as proposed in the UR negotiations.

The notion of fostering agricultural operators managing an efficient and productive  
agriculture was integral to the New Farm Policy announced by the Japanese  
government in 1992. This suggests that the report was merely reiterating government policy rhetoric on these matters.

Minimum access for rice was regarded as undermining the force of Article 11 of the  
Food Control Law (which permits state trading) because the government lost the  
authority to decide import volumes. Tashiro calls it ‘shadow tariffication’ insofar as  
tariffication may be forced on Japan in the negotiations when the waiver period expires (namely, in the year 2000) (Tashiro 1994, p. 27).

Minimum access was permitted to a level of 4–8 per cent of Japan’s total consumption  
(10 million tonnes) over six years; in the first year of the agreement (1995), Japan’s  
import quota for rice would be 379,000, increasing to 758,000 tonnes in the year 2000.

The rates of import tariffs on agricultural imports are set based on the difference between domestic and international prices, so that relatively high tariff rates, such as  
413 per cent on wheat and 430 per cent on starch, are applied.

In late November 1996, for example, an agricultural cooperative reform bill was  
presented to an extraordinary Diet session.
For example, Keidanren and companies like Daiei received hundreds of written objections from various groups when the Administrative Reform Promotion Headquarters was debating deregulation. See Nakauchi (1994, p. 5).

Former Deputy Prime Minister Gotoda Masaharu commented just prior to the October 20 1996 Lower House elections that: ‘Once a proposal for administrative reform is actually put forth, there will be people with vested interests fighting to hang on to what they’ve got, and behind them will be Diet members’. Quoted in The Nikkei Weekly, 14 October 1996.

According to Nakazawa (1995, p. 11): ‘As long as organizations are left unreformed, rules and regulations will remain’. The Murayama administration proposed in February 1995 to reduce the number of public corporations from 92 to 81 after three years, but the plan was criticised because it only reduced numbers and not government spending. The Nikkei Weekly, 8 January 1996.

MAFF officials, for example, have found retirement prospects increasingly problematic. Careers in politics are no longer so popular, so many in the MAFF refuse to become politicians, even if they are asked to run for office. They prefer to retire into a gaikaku dantai. For ex-MAFF and MOF officials, the best jobs are as Director-Generals of a tokushu hojin or quasi-government agency. This contrasts with the situation for retired MITI bureaucrats, for example, where private companies are preferred and are a viable alternative. Personal interview, retired MAFF official, Tokyo, July 1995. In August 1996, for example, the National Personnel Authority recommended that the Diet consider revising government employment rules, including the early retirement mandate that encourages top officials to amakudari into positions in business. The rationale for this move was the view that this might help to break one of the institutionalised mechanisms through which the bureaucracy maintains its sway over Japanese business. The Nikkei Weekly, 19 August 1996.

Former MOF official and Upper House Diet member Hamada Takujiro comments with respect to officials in his former ministry that ‘protecting the privileges that MOF has enjoyed is extremely important to them … and deregulation will mean intruding on prerogatives that they have enjoyed for a long time’. Quoted in Tokyo Business Today (October 1995), p. 12.

This was a comment made by the correspondent for the Straits Times at the post-October election Cabinet press conference in Tokyo. He reported the comment made by the new Construction Minister, Kamei Shizuka, for instance, that: ‘The bureaucrats know best whether what they do is in the interests of the people. They will have to examine themselves thoroughly.’ Reuters, Business Information News, 11 November 1996, from the Straits Times.

Michael Armacost noted, for example, that Hosokawa was unable to galvanise the necessary political ‘strength needed to make real inroads against a self-protective bureaucracy’. (Armacost 1994). The Japan Times (26 July 1995) also editorialised
about the process of deregulation having ‘lost steam as the … campaign stumbled in
the face of bureaucratic resistance’ [and] ‘surrendered to the desire of the mandarins
to protect the vested interests of their ministries and agencies.’

40 This was Tanaka Shusei, former deputy leader of the Sakigake Party.

41 A Sakigake politician, for example, had been leading the former ruling coalition’s
project team on administrative reform in 1995-1996. Furthermore, the Sakigake made
the LIPC and the SSPSC an object of planned abolition in its policy. Asahi Shinbun,

42 According to a report in the Nikkei Weekly (16 September 1996), the party has
promised ‘drastic administration reform’ and ‘transformation of current politics,
which are heavily dependent on the bureaucracy, into citizen-oriented politics’.

43 This is particularly the case with respect to former members of the Japan New party,
which is made up almost entirely of urban representatives.

44 The new Minister of MITI, for example, has already stated that: ‘Deregulation is the
most important topic.’ Reuters, Business Information News, 15 November 1996.

45 This view was expressed by Diet member, Hajime Funada, interviewed in The Nikkei
Weekly, 1 July 1996.

46 Part of Hashimoto’s restructuring plans for the bureaucracy involve transferring
budget, personnel and management functions to the Prime Minister’s Office in an
attempt to enhance political leadership in Japan.

47 This was the view presented in an editorial of the Nikkei Weekly, 12 August 1996.

48 This is based on a questionnaire survey of 170 Japanese bureaucrats in 1996 reported
in Nikkei Weekly, 9 September 1996.


50 A good example is the petroleum industry.

51 This was endorsed by a comment of the executive research fellow at LTCB Research
Institute who said: ‘Everybody agrees to deregulate government rules in general, but
there is always opposition when it comes to an item-by-item discussion or implemen-
tation. This is where politicians need to take the initiative’. Nikkei Weekly, 29 July
1996.

52 These are the comments of a leading Japanese industrialist (unnamed), quoted in

53 Complaints have been made, for example, that more than a year after the monopoly
on gasoline imports by the oil refiners and distributors was eliminated and restrictions
were eased on gasoline retailing, it is still difficult for new players to enter the gas
retailing industry because they lack the required gasoline storage facilities and cannot

54 These areas were airline fares and imports of cosmetics.

55 As an Editorial in the *Nikkei Weekly* (16 September 1996) opined: ‘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.

56 The ‘Hashimoto Vision’ released in September 1996 articulated an administrative reform plan that envisaged a radical restructuring of the nation’s central bureaucratic system involving a reduction in the number of ministries and agencies from the current 22 into 11 reconstituted new ministries including a break up of MITI and the Ministry of Finance. The plan was designed to assert the primary of politicians over the bureaucrats and ‘limit the excessive control over the private sector by the bureaucracy’. (*The Nikkei Weekly*, 23 September 1996). Although its underlying rationale might be reformist, its scheduled implementation date has been set at a respectable distance in time — 2010.

57 These were some of the criticisms voiced by Iwao Nakatani, Professor of Economics at Hitotsubashi University.

58 The signs from the October 1996 Lower House election are somewhat conflicting. In the new single-seat constituencies, traditional patronage-type politics continues to be popular, while the regional (PR) districts are more orientated towards electoral competition based on policy issues.

59 This has been called the ‘Big Bang’ and envisages further liberalisation and internationalisation of the credit and capital markets. It is designed to increase competition among domestic banks, domestic securities firms and overseas financial firms. The package of financial reform bills presented to the Diet in early March 1997, however, was watered down under pressure from MOF. The bill established a new Financial Supervision Agency which appears to strip MOF of its supervisory role and which will oversee banks, securities firms and insurance companies. In practice, MOF will maintain crucial control over key decisions because the Minister of Finance will have to be consulted prior to the implementation of its orders. *The Nikkei Weekly*, 17 March 1997, *The Nikkei Weekly*, 24 March 1997.

60 This body consists of about 10 business executives, academics and related experts but no bureaucrats. Decisions taken by the advisory body are intended to have virtually the same weight as cabinet decisions. The main task of the body is to come up with a plan to halve the number of ministries and agencies from the existing 22, and to receive reports on deregulation and decentralisation of government powers from
existing advisory committees. Prime Minister Hashimoto heads the new body and is supported by MCA Director General, Kabun Muto. It is supported by an independent secretariat to flesh out the general recommendations of the committee with concrete deregulation plans. *The Nikkei Weekly*, 11 November 1996.

According to this report, in December 1996, there were five panels attached to the Finance Ministry alone. The committees are now so numerous that the MCA has put out a pamphlet that lists all the committees and their activities.

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Wheeling and Dealing: Reforming Electricity Markets in Japan

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4. **Wheeling and Dealing: Reforming Electricity Markets in Japan**

**Introduction**

The postwar structure of electricity markets in Japan, characterised by private monopolies and state regulation has prevented any significant competition from emerging in those markets. It has done so through a regulatory system that has served to reinforce existing monopolies. Alternative suppliers, with the exception of some limited generation by industry, were prevented from entering electricity markets. These suppliers were furthermore constrained in their supply operations as they could not engage in wheeling and dealing (supply to non-utility consumers) because private monopolies controlled transmission lines. With the exception of some consumption by power companies, consumers were generally prevented from purchasing electricity from non-utility entities. Any non-utility supply and consumption which occurred was heavily regulated and only took place in peripheral markets.

During the 1980s and 1990s, considerable market and political pressure emerged for reform in the structure and operation of electricity markets. Rapid electrification of the economy and the increasing costs of electricity brought increasing consumer pressures for lower electricity prices. The growth of self-generation, mainly in industry, brought pressure from alternative suppliers for more competitive and less regulated electricity markets. Consumers also demanded lower electricity prices. Power companies opposed changes which were perceived to weaken their market positions, although they supported regulatory reform to help in reducing electricity costs. The Ministry of International Trade and Development (MITI) generally supported reform but resisted moves to weaken its legal powers over markets to the degree that private interests wanted.

The conflicts which these competing pressures generated were not only between private interests about the nature and extent of monopoly control over those markets, but they were also between the private sector and the state about the nature and extent of state intervention in the market. The outcome of these conflicts resulted in a revision to the Electric Utility Industry Law in 1995. The change in the regulatory framework did not break up private
monopolies. The aim, rather, was to reduce prices in the shorter term and to alter the structure of markets over the medium to longer terms by changing pricing arrangements and by providing more opportunities for new entrants to participate in electricity markets and gain access to transmission lines. Market-conforming policy changes required a process of both deregulation and re-regulation. A coalition of pro-reform forces has emerged in electricity markets and expanded its influence over policymaking processes in Japan.

**The postwar structure of electricity markets**

Historically, the key feature of Japan’s electricity supply business has been the existence of vertically integrated regional monopolies, which have been heavily regulated by the state. Most of the electricity in Japan has been generated, distributed and sold by Japan’s nine private power companies, which have had regional monopolies in both the wholesale and retail supply of electricity in nine regional electricity spheres. For example, Tokyo Electric has had monopoly rights to exclusively generate electricity to the Kanto electricity sphere. Furthermore, as it has been the nine power companies which have constructed transmission and distribution facilities, they have had monopoly rights over the transmission of electricity to end users. For example, Hokkaido Electric has had exclusive access to transmission lines to supply electricity to Hokkaido. Japanese power companies have had monopoly rights in both the generation and transmission of electricity (Nihon Enerugii Keizai Kenkyu Sho 1986).

State regulation has also been a feature of the power industry in Japan given various types of market failure, such as the monopolistic nature of the industry and the existence of externalities, such as environmental and reliability externalities, in generating electricity. State regulation, like elsewhere, has been viewed as necessary to remedy different forms of market failure, with the assumption that consumer welfare would not be maximised by allowing profit-maximising strategies of firms in structurally uncompetitive markets. All facets of the power industry have been heavily regulated by the state, principally by MITI, through regulations such as the Electric Utility Industry Law. Of crucial import for this paper is state regulation relating to market entry and electricity supply conditions, including both wholesale and retail supply, access to transmission lines, electricity pricing, and safety considerations in both the construction and operation of power plants.
Market entry and supply conditions have been heavily regulated, and a licence has been required to enter both wholesale and retail electricity markets. Historically, only two types of companies, apart from the nine utilities, have been granted licences to supply electricity. The first was the Electric Power Development Company (EPDC), the major wholesale supplier of electricity in Japan. It has supplied electricity to the private power companies, although it is not permitted to supply retail electricity to customers. The second was that some other non-utility suppliers (designated electricity suppliers), mainly in heavy industry, have supplied in-house generation and some electricity to the power companies through wholesale markets. This licensing system has effectively maintained the monopoly status of the nine electric utilities. It has constrained alternative suppliers from supplying electricity to wholesale and retail markets.

Regulations on the use of transmission lines for wheeling have also served to maintain regional monopolies in the supply of electricity. Wheeling, formally defined, is the selling of electric power by a utility to an end-user in another utility franchise, or among non-utility entities, formerly retail customers of electric utilities. Simply put, it means that consumers have open access to receive power produced by and transmitted from a source other than their host utility. The host utility wheels (transmits) power through its own transmission lines to a customer for a set charge (Thomas 1994). Virtually no wheeling existed in Japan prior to 1957, when a supply crisis with Tohoku Electric forced MITI to allow wholesale wheeling, but only for the nine power companies (Murota 1983). Designated power suppliers and the EPDC have been heavily regulated in wheeling and dealing, or supplying electricity to non-utility consumers, apart from themselves, either inside or outside the electricity sphere of their host utilities.

The pricing of electricity has also been heavily regulated by the state. In wholesale markets, for example, power companies are legally required to purchase wholesale electricity from the EPDC, at prices determined significantly by state intervention. Prices in retail markets have been based on a full cost rate setting system (based on production, supply and management costs), with an appropriate fair remuneration component — during the 1990s, at 7.2 per cent (Sankei Shimbun, 8 October 1994) — added onto that, and have also been influenced heavily by regulators. Power companies must apply to MITI for price changes and provide considerable documentation justifying those changes. Approval for electricity price changes must be formally approved by MITI, after agreement from the ruling party. Electricity pricing, therefore, has been strongly influenced by state intervention.
A large number of regulations have also covered both the construction and operation of all power plants. These regulations are designed to seek a balance between the benefits of power plants and the environmental risks associated with their development. The state has regulated all stages of the power plant and transmission lines construction process, and power companies must receive approved licences before proceeding onto different stages of the process (Lesbirel 1988). The state also regulates the operation of power plants through periodic inspections, both during construction and operation, where regulators inspect power plants to ensure that safety standards are being complied with. These inspections cover even minute aspects of construction and repairs, including the welding of pipes. Nuclear plants have to be shut down while these inspections are carried out (Sankei Shimbun, 21 February 1994; Tokyo Yomiuri Shimbun, 8 November 1994).

The regulated monopoly structure of the industry has emerged as a result of politics of reciprocal consent, or historical negotiations between the private sector and the state over ownership and control, and have important implications for reform (Samuels 1987). These negotiations have yielded a structure where the private sector (monopoly suppliers) have been able to maintain ownership and monopoly control over the industry but only in return for giving the state jurisdiction (legal regulatory power) over the industry. This has yielded a structure whereby, until recently, Japan was one of the few industrialised nations to have private ownership of electricity supply. Hence, while electricity market reform in Japan is similar to many other countries in terms of regulatory reform (altering the legal power of the state), it is different in the sense that it is not about privatising state controlled monopolies; it is also about reducing the power of private monopolies in markets.

**The nature of the regulatory changes**

Reforms which were made to the Electric Utility Industry Law in 1995 sought to alter the medium to longer term structure of electricity markets characterised by state-regulated private monopolies and monopoly pricing. They have done this by a combination of both deregulation and re-regulation. The new reforms do not break up the monopolistic structure of the industry; they leave that intact. Rather, they have sought to encourage deregulation and reform by reducing government intervention in licensing, encouraging new entrants to the market. Of particular importance is the changing arrangements governing electricity pricing which give MITI expanded influence over electricity pricing in Japan.
Table 1 provides a summary of the changes to the Electric Utility Industry Law. I review the changes which took place in terms of regulations governing safety, market entry, supply conditions, transmission access and pricing, and do this for both wholesale and retail markets. These policy changes sought to reduce licensing requirements for power plants, to bring about a shift from a licensing system to a tendering system for wholesale supply and relax regulatory conditions for retail supply, to open up transmission networks to new entrants, and to introduce more competitive pricing in wholesale markets through private based contracts, and in retail markets through the introduction of different pricing mechanisms such as yardstick assessment standards and a fuel cost adjustment clause.

The first set of changes relate to safety regulation. The extremely strict licensing requirements have been relaxed significantly to what government regarded as a necessary minimum. First, the large number of multiple-stage pre-inspections required for the construction of power plants and transmission lines have been reduced and simplified. Second, the frequency and interval of safety inspections during the operation of power plants has been changed to a self-regulatory system. These changes will also be applicable to other new energy sources produced by new entrants to the supply business. These policy changes have clearly aimed to reduce the role of the state in licensing, to increase corporate responsibility for maintaining safety standards and, thereby, to reduce licensing costs in the determination of electricity prices.

The second set of changes relate to market entry into electricity markets, particularly for thermal generation. Wholesale markets have seen the abolition of the licensing system and the introduction of a reporting system, whereby entrants only have to inform MITI that they will be entering the market. In principle, any company can now enter the wholesale electricity business. While the revised laws importantly allow for entry of designated supply industries into retail markets (mainly existing non-utility generators), other suppliers still need to acquire a licence to enter retail markets. New entrants, independently of whether they enter wholesale or retail markets, will still be governed by existing regulations with respect to non-thermal supply.

The changed regulations also seek to alter the conditions under which new entrants can enter both wholesale and retail electricity markets. A tendering system has been introduced into wholesale markets with the aim of facilitating independent power producer (IPP) entry. Under the new legislation, power companies are required to publicise, in their yearly construction plans, amounts of electricity required and, when it is required, criteria for
<table>
<thead>
<tr>
<th></th>
<th>Pre-1995 regulations</th>
<th>Post-1995 regulations</th>
<th>Modifications</th>
</tr>
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<tbody>
<tr>
<td><strong>Safety</strong></td>
<td>Regulated licensing based on inspection system</td>
<td>Reduced frequency and intervals of inspections</td>
<td>More corporate responsibility for safety and flexible inspections</td>
</tr>
<tr>
<td>Market entry</td>
<td>Regulated entry with licensing requirement</td>
<td>Allow entry of Independent Power Producers (IPP) based on tendering and reporting system</td>
<td>In-principle opening up of wholesale market to new entrants</td>
</tr>
<tr>
<td>Wholesale</td>
<td>Regulated entry with licensing requirement</td>
<td>Allow special supply utilities (SSU) to direct supply at designated locations</td>
<td>Partial opening up of retail market to new entrants</td>
</tr>
<tr>
<td>Retail</td>
<td>Regulated entry with licensing requirement</td>
<td>Utilities obliged to give IPPs access to wholesale wheeling</td>
<td>Encourage opening up of transmission networks and wheeling based on private negotiations</td>
</tr>
<tr>
<td><strong>Transmission</strong></td>
<td>Regulated entry and use with licensing requirement</td>
<td>Utilities obliged to give IPPs access to wholesale wheeling</td>
<td>Encourage opening up of transmission networks and wheeling based on private negotiations</td>
</tr>
<tr>
<td>Wholesale and retail</td>
<td>Regulated entry and use with licensing requirement</td>
<td>Utilities obliged to give IPPs access to wholesale wheeling</td>
<td>Encourage opening up of transmission networks and wheeling based on private negotiations</td>
</tr>
<tr>
<td>Pricing</td>
<td>Regulated pricing based on full cost rate setting and fair remuneration</td>
<td>Private reporting system on transmission charges and wholesale pricing</td>
<td>More competitive and transparent pricing based on private contracts</td>
</tr>
<tr>
<td>Wholesale</td>
<td>Regulated pricing based on full cost rate setting and fair remuneration</td>
<td>Private reporting system on transmission charges and wholesale pricing</td>
<td>More flexible, competitive and transparent pricing</td>
</tr>
<tr>
<td>Retail</td>
<td>Regulated pricing based on full cost rate setting and fair remuneration</td>
<td>Utilities: include yardstick cost assessment, and introduction of fuel cost adjustment clause, and time-based contracts</td>
<td>More flexible, competitive and transparent pricing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>SSUs: reporting system, obligation to supply, and regulation to prevent wrongful discrimination</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Compiled from Denki Jigyo Shingi Kai (1995).
evaluating alternative bids, and model agreements. IPPs will compete for the rights to fulfil those tenders by submitting bids. Negotiated prices will be reported to MITI. Power companies are obliged to purchase electricity from successful bidders. The licensing system governing conditions of wholesale supply has been removed, and those conditions will now be worked out through private negotiations between new entrants and the power companies.

Special supply utilities are now able to supply directly to end-users in designated locations, based on a reporting system, but under these conditions they will still be subject to regulations that legally require obligatory supply to end-users to whom they provide electricity. Self-consumption permits for the supply of in-house generation will no longer be necessary. Consumers will be able to now choose between electricity generated by power companies and electricity from special supply utilities at designated locations by designated suppliers in retail markets. These new entrants will be inspected to ensure that they have the necessary capability to meet supply responsibilities and will have a legal obligation to supply to designated locations (FEPC 1995).

The new provisions provide access to both wholesale and retail suppliers to transmission lines, which are still owned by private power companies. Such access is crucial given that alternative electricity providers would not be able to supply electricity efficiently without that access, given the political and economic costs of developing transmission lines. Under the new regulations, power companies are obliged to grant access to alternative suppliers which succeed in tendering in wholesale markets, or to designated supply industries when providing electricity to end-users. Under the new regulations, both wholesale and designated retail suppliers will be able to engage in wheeling (open access for consumers to receive power generated by and transmitted from a source other than their host utility). For example, power companies in one region will be able to buy wholesale electricity from IPPs operating in another region, and there will be more opportunities for inter-regional wholesale electricity trade. Retail wheeling is still restricted to special cases (FEPC 1995).

While these changes regarding licensing, market entry and access to transmission lines suggest a reasonable degree of deregulation, an analysis of price deregulation is crucial in evaluating and measuring the extent of reform. In terms of wholesale prices, all MITI regulations have been abolished, and prices are to be settled based on the tendering system between IPPs and the power companies. The new policy includes several tendering conditions (Mainichi Shimbun, 8 December 1994). Plants should generally be those with lead-times of less than seven years, and this means that nuclear and hydro-electric plants are outside the
scope of the revised regulations. Power companies will still retain some influence over the amount of new capacity for tender and the avoided costs (the maximum price at which utilities will accept bids). Contracts should be for about fifteen years, and ten at a minimum. The results of those tenders only have to be reported to MITI (FEPC 1994; *Tokyo Yomiuri Shim bun*, 22 November 1994; *Nikkei Sangyo Shim bun*, 30 June 1995). These conditions imply that the electric utilities will be able to constrain the degree to which and the speed at which IPPs can enter the wholesale market.

While power companies still retained control over wholesale pricing, MITI was able to acquire more discretionary control over retail pricing and to introduce more flexible pricing arrangements for retail supply and more equal treatment in terms of pricing for access to transmission lines. Under the modified legislation, the basis of the existing regulated full cost rate setting system (based on production, supply, and management costs, plus fair remuneration) has continued, though it was changed in several ways. The first was the introduction of yardstick cost assessment standards in the determination of electricity prices. Power companies are now required to provide information on cost structures and management efficiency plans to MITI on a regular basis. In deciding whether to change prices, MITI will compare cost and management indicators among the utilities and set a uniform standard. The introduction of this system is aimed at providing indirect incentives for power companies to become more efficient, as it will penalise less efficient producers. It also gives MITI considerable discretionary power over electricity pricing.

The second set of changes relate to more flexible pricing arrangements. Importantly, a fuel price adjustment clause was introduced that will allow more timely responses to passing on fuel price declines to consumers around oil price and exchange rate changes. There was also a change to the previous system of individual approval for electricity rates that contribute to load levels (nighttime electricity) to a system of notification of price lists to give consumers a wider choice. Pricing by designated supply utilities will be based on a notification system, although regulation was to be introduced to prevent wrongful discrimination against consumers.

The final set of changes relate to changes in pricing rules for access to transmission lines. In terms of the costs of access to transmission lines for either wholesale or retail supply, existing or new IPPs and designated supply utilities are able to obtain the same deal for access that the private power companies charge for access to other power companies’ transmission
access to transmission lines, where new lines or facilities have to be constructed, will be negotiated separately between private interests. This change gives new entrants at least equal terms for transmission line access as the power companies.

In evaluating the nature and extent of the changes to the Electric Utility Industry Law, it is helpful to examine the extent to which those changes sought to transform the Japanese electricity market into a competitive market. It is clear that the reform process did not break up the regional monopolies enjoyed by power companies. Market structure is still characterised by a high degree of monopoly. The changed regulations were clearly designed to reduce price differentials through pricing mechanisms which made prices more responsive to shorter term market changes, and to encourage indirect competition. They also aimed to provide, over the medium to longer terms, easier market entry to new entrants by providing more access to markets for new entrants, and more equitable access to transmission lines, although power companies still influence the setting of tender prices in wholesale markets. Most important of all is that deregulation also meant re-regulation and increasing the discretionary influence of the state to encourage more competition in electricity markets over the medium to longer terms.

The management of markets under regulated monopolies

Since the two oil crises, and particularly during the 1980s, the management of electricity markets under regulated monopolies has become increasing untenable. Electricity prices have become high not only in relation to fuel import price declines but also in relation to comparative prices in other advanced nations. With rapid electrification of the economy, electricity demand and, in particular, residential demand has increased dramatically. The increasing costs associated with siting, managing peak load requirements, and changed financing strategies have increased significantly the capital costs of power plants. At the same time, there has been considerable growth in non-utility generation, particularly industrial in-house generation in wholesale markets, reflecting the relative efficiency of those supplies. Despite the growth of non-utility supply, the increasing capital costs of the electric utility industry has prevented lower fuel import prices from being reflected in lower electricity prices.
Electricity prices

Since 1973, as shown in Table 2, average fuel import prices in Japan have displayed two important trends. From 1973–83, they increased 373 per cent from ¥0.89 per kcal to ¥4.21 per kcal; these rapid increases were associated mainly with the two oil crises of 1973 and 1979. Since 1983 they have declined by 62 per cent to ¥1.60 per kcal. This decline after has mainly resulted from appreciation of the yen, recessed economic growth, changes in the Middle East, particularly with the ability of Saudi Arabia to act as a swing producer, and the emergence of alternative non-Middle East oil suppliers. These developments have increased the bargaining power of major consumers such as Japan in negotiations with supplier countries over energy fuel import prices (Lesbirel 1988).

Table 2 Comparative indicators of electricity prices in Japan

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</thead>
<tbody>
<tr>
<td>Electricity prices in Japan&lt;sup&gt;a&lt;/sup&gt;</td>
<td>A</td>
<td>6.24</td>
<td>14.57</td>
<td>25.33</td>
<td>21.77</td>
</tr>
<tr>
<td>Fuel import prices in Japan&lt;sup&gt;b&lt;/sup&gt;</td>
<td>B</td>
<td>.89</td>
<td>1.82</td>
<td>4.21</td>
<td>1.43</td>
</tr>
<tr>
<td>10-year change</td>
<td>A÷B</td>
<td></td>
<td>0.82</td>
<td></td>
<td>0.33</td>
</tr>
<tr>
<td>OECD average</td>
<td>B</td>
<td></td>
<td>5.84</td>
<td>7.74</td>
<td>8.52</td>
</tr>
<tr>
<td>Differential</td>
<td>A÷B</td>
<td></td>
<td>1.88</td>
<td>2.28</td>
<td>2.31</td>
</tr>
<tr>
<td>10-year change</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>22.9</td>
</tr>
</tbody>
</table>

Notes: a Yen per 1,000 kcal.
       b US cents per kWh.

Sources: Compiled from Denki Jigyo Rengo Kai, Denki Jigyou Binran (various issues); IEA (1995).

Although Japanese electricity prices have mirrored these trends, increasing 306 per cent to 1983, and then declining by 20 per cent to 1993, they have become less responsive to movements in fuel import prices, particularly to downward fuel import prices. The change in the ratio of electricity prices to fuel import prices (a measure of flexibility of electricity prices to changing fuel import prices) was 0.82 for the period 1973–83 and 0.33 for the period 1983–
This suggests that there is an unevenness in the responsiveness of electricity prices to increasing and decreasing fuel import prices. While electricity price increases were nearly reflected fully in increasing fuel import prices for the former period, they were reflected significantly less in declining import prices during the latter. Put another way, while the costs of higher fuel import bills were nearly fully passed onto consumers in the earlier period, the benefits of lower fuel import bills were not passed nearly as fully onto consumers in the latter period.

Japanese electricity prices for the period 1983–93 have also been perceived to be not only higher but also to have become increasingly higher in comparative terms. Electricity price differentials (measured as the ratio of average electricity prices in Japan to the OECD average in US currency) were consistently around the 1.8–2.3 mark for the period. Indeed, measured in this way, Japanese electricity prices were the highest in the OECD, with only Germany and Italy coming close. These price differentials have increased 22.9 per cent from 1.88 in 1983 to 2.31 in 1993, suggesting that Japanese consumers have been increasingly paying higher electricity prices relative to their counterparts in other industrialised countries.

**Electricity demand trends**

Since the 1973 oil crisis, the Japanese economy has been undergoing considerable electrification. As highlighted in Table 3, electricity demand growth (92 per cent) has been consistently higher than energy demand growth (26 per cent), and the share of electricity in aggregate energy demand has increased 54 per cent, from 13 per cent in 1973 to 20 per cent in 1993. This electrification has taken place mainly as a result of structural change away from energy-intensive industries (heavy industry) to more electricity-intensive industries (service industry) and the consequent substitution out of energy into electricity consumption, and increased incomes. While electrification has increased over the period in the industrial sector (20 per cent), it has been particularly marked in the residential sector (70 per cent). Within that sector, electrification has increased in the household sector (36 per cent), but has been most striking in the commercial sector (141 per cent). Japan now has one of the most electrified economies in the world.

This electrification has led to fundamental changes in the sectoral composition of electricity demand. The share of industrial electricity demand to total electricity demand declined from 66 per cent to 47 per cent due to structural change away from electricity-
Table 3  Electricity demand trends in Japan

<table>
<thead>
<tr>
<th>Year</th>
<th>Electricity demand</th>
<th>Energy demand</th>
<th>% share</th>
<th>Industrial</th>
<th>Residential</th>
<th>Commercial</th>
<th>Transport</th>
</tr>
</thead>
<tbody>
<tr>
<td>1973</td>
<td>A 35,587</td>
<td>B 26,523</td>
<td>13</td>
<td>66</td>
<td>31</td>
<td>12</td>
<td>3</td>
</tr>
<tr>
<td>1978</td>
<td>42,636</td>
<td>273,313</td>
<td>16</td>
<td>58</td>
<td>39</td>
<td>16</td>
<td>3</td>
</tr>
<tr>
<td>1983</td>
<td>46,861</td>
<td>260,308</td>
<td>18</td>
<td>54</td>
<td>43</td>
<td>25</td>
<td>3</td>
</tr>
<tr>
<td>1988</td>
<td>57,123</td>
<td>300,545</td>
<td>19</td>
<td>51</td>
<td>46</td>
<td>25</td>
<td>3</td>
</tr>
<tr>
<td>1993</td>
<td>68,310</td>
<td>335,162</td>
<td>20</td>
<td>47</td>
<td>50</td>
<td>26</td>
<td>3</td>
</tr>
</tbody>
</table>

Notes: a 10**10 kcal.  
b Percentage of total electricity demand.


intensive industries such as petrochemicals and steel. The share of residential demand increased from 31 per cent to 50 per cent. Growth in the share of commercial demand has occurred mainly as a result of the relative expansion of the service sector in Japan, and increases in electricity consumption as a result of the increased number and size of office buildings, increased computer usage, improved working conditions (air-conditioners), the growth of 24-hour industries, and increased illumination. Growth in the household sector has been associated with increased incomes, which has increased consumption of household appliances. Not only has the diffusion of these appliances increased but households have been increasingly holding multiple appliances, such as colour TVs and air-conditioners. In 1993 residential demand accounted for half of total electricity demand and, for the first time in Japanese history, residential electricity demand was higher than industrial demand.

Associated with the rapid growth in demand, particularly in the residential sector, has been a worsening of load factors. The demand for electricity is typically broken down into base, middle and peak loads, usually considered in terms of daily loads, which are then aggregated into annual loads. Base load is where electricity is used relatively consistently on a daily basis — by industry, for example. Middle load is higher than base load and refers to the use of increasing amounts of electricity — for example, by households in the preparation of meals. Peak load represents the highest period of demand, such as, for example, the use by households of electricity in the early evening. Peak demand has been consistently associated with the heavy use of air-conditioners in summer.
Annual load factors measure the relationship between average electricity demand throughout a given year, and peak electricity demand, averaged over the three days when seasonal electricity demand is the highest. They are an indicator of the flatness of the annual load curve. For example, a relatively high load factor would indicate that the load curve is relatively flat, or that the demand for electricity is relatively consistent throughout the year. In contrast, a lower load factor indicates considerably more variations between the different types of demand, or more peaks in seasonal demand. In short, load factors provide an important measure of the difficulty of managing peak demand periods in electricity markets.

As shown in Table 4, average five-year load factors in Japan remained reasonably stable until 1988 but declined from 60.4 per cent in 1988 to 56.5 per cent in 1993. Furthermore, during this period they were more variable. Peak electricity demand has been increasing faster than average demand, and this has been partly associated with the changing structure of electricity demand. As noted earlier, growth in electricity demand has been highest in the residential sector, where electricity demand varies the most on a seasonal basis. It is in this sector that peak demand has been most variable, particularly when temperatures vary — which has been associated with variations in air-conditioner use (Tokyo Yomiuri Shimbun, 28 August and 25 September 1994).

### Table 4  Trends in load factors and reserve margins (utilities)

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Peak demand(^a)</td>
<td>68,383</td>
<td>88,370</td>
<td>99,323</td>
<td>121,355</td>
<td>143,588</td>
</tr>
<tr>
<td>10-year change</td>
<td>-</td>
<td>-</td>
<td>45</td>
<td>-</td>
<td>45</td>
</tr>
<tr>
<td>Annual demand(^b)</td>
<td>253,852</td>
<td>307,645</td>
<td>338,230</td>
<td>405,791</td>
<td>472,347</td>
</tr>
<tr>
<td>10-year change</td>
<td>-</td>
<td>-</td>
<td>33</td>
<td>-</td>
<td>40</td>
</tr>
<tr>
<td>Load factors</td>
<td>-</td>
<td>60.9</td>
<td>61.2</td>
<td>60.4</td>
<td>56.5</td>
</tr>
<tr>
<td>Reserve margins</td>
<td>-</td>
<td>11.4</td>
<td>20.2</td>
<td>11.7</td>
<td>8.3</td>
</tr>
</tbody>
</table>

*Notes:*  
\(^a\) 1,000 kW.  
\(^b\) Million kWh.

The worsening load factors have also been a result of difficulties in implementing demand-side management (DSM) policies. While these policies have been reasonably successful in managing peak demand in the industrial sector, they have not been so effective in the residential sector. In the industrial sector, power companies have increasingly used rate systems to manage peak demands through load adjustment and night-only service contracts. Although they have encouraged DSM policies in the commercial sector through, for example, encouraging the use of electric energy storage plants (a battery energy storage system which stores energy at low load periods and dispatches that energy at high load periods), they have not been particularly effective in reducing commercial demand (Oba and Nanhara 1983) Using the price mechanism to curtail demand by smaller commercial and residential users has been politically difficult. This suggests that DSM policies have mainly been targeted indirectly to management of peak demand in the highest growth sectors and have not been able to flatten load curves in any significant way (Hasegawa 1995).

The costs of electricity supply

The costs of supplying electricity to meet these rapid increases in demand, including peak demand, have increased significantly. Over time, power plant location has moved into more costly sites, increasingly distant from the major electricity consumption centres in urban areas, where residential demand increases have been the highest. As illustrated in Table 5, the average distance of new generating capacity from Tokyo (Tokyo Electric) and Osaka (Kansai Electric) has increased from the period 1973–83 (Tokyo: 72 kilometres; Osaka: 46 kilometres) to the period 1983–93 (Tokyo: 180 kilometres, Osaka: 99 kilometres). The ruralisation of power plant location reflects the historical pattern of siting development in Japan in the postwar period. In the 1960s power companies generally located projects in the least costly sites. As these sites became more scarce during the 1970s and 1980s, power companies moved into increasingly costly sites, and this has increased the political and capital costs associated with capacity expansion.

Since 1973 the lead-times required to site nuclear and thermal power plants have increased. Average lead-times of 9.2 years during the period 1973–83 increased to 17.4 years in the period 1983–93. In particular, the gestation times for nuclear power plants have increased from an average of required 9.2 years to 24.6 years during the two periods, and are twice as long as the lead-times required to bring thermal capacity (10.2 years) on line. While
Table 5  Indicators of siting difficulties

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Distance from major load centres\textsuperscript{a}</td>
<td>59.2</td>
<td>138.0</td>
</tr>
<tr>
<td>Tokyo</td>
<td>72.3</td>
<td>180.4</td>
</tr>
<tr>
<td>Osaka</td>
<td>46.1</td>
<td>98.6</td>
</tr>
<tr>
<td>Lead-times\textsuperscript{b}</td>
<td>9.2</td>
<td>17.4</td>
</tr>
<tr>
<td>Nuclear</td>
<td>9.2</td>
<td>24.6</td>
</tr>
<tr>
<td>Thermal</td>
<td>-</td>
<td>10.2</td>
</tr>
<tr>
<td>Compensation (nuclear)\textsuperscript{c}</td>
<td>1,456</td>
<td>6,125</td>
</tr>
<tr>
<td>Plant growth (nuclear)\textsuperscript{d}</td>
<td>21</td>
<td>18</td>
</tr>
<tr>
<td>Initial plants</td>
<td>9</td>
<td>2</td>
</tr>
<tr>
<td>Subsequent plants</td>
<td>2</td>
<td>16</td>
</tr>
</tbody>
</table>

Notes:  
\textsuperscript{a} Kilometres.  
\textsuperscript{b} Years.  
\textsuperscript{c} Yen per kW.  
\textsuperscript{d} Number of plants.

Sources:  
Compiled and updated from Lesbirel (1995), with information received from Denryoku Chuo Kenkyu Sho in 1995.

there have been some increases in licensing and construction times for both nuclear and thermal power plants, these lengthening lead-times have been predominantly associated with the increasing difficulties in bargaining processes involved with compensating local and regional communities for developmental externalities expected to be incurred as a result of those projects. Japan, like other nations, has increasingly been confronted with the NIMBY (‘not in my back-yard’) problem, and this has increased dramatically the difficulties in meeting electricity demand growth.

Not only have lead-times increased but so too have the bargaining costs involved in getting local and regional agreement for projects. This has been particularly so in the case of fishing rights transfer negotiations around nuclear projects. Fishing rights are legally recognised in Japan, and fishing interests have veto power over placement decisions. Power companies must secure their transfer before commencing full-scale construction of power plants. Opposition from local and regional fishing interests has been the most intractable problem facing utilities in the siting of energy projects. Negotiations over the transfer of these and other rights are aided by a set of institutional mechanisms designed to facilitate bargaining processes between power companies and property rights holders. While these institutions
have played an important role in assisting negotiations, average compensation outlays during 1973–83 of ¥1,456 per kW increased dramatically to ¥6,125 per kW during 1983–93.

The difficulties associated with nuclear power plant growth are also reflected in the patterns of growth in terms of ‘initial’ and ‘subsequent’ projects. Initial projects (a project developed on a site where no energy facilities exist) are generally more difficult to site than subsequent projects (projects developed on a site where at least one facility already exists). Subsequent projects are easier to site because the opposition has already been cracked, power companies usually purchase property rights from several plants at the one time, and the local economy becomes dependent on project development to sustain regional economic growth. The number of initial nuclear projects that have been developed has declined significantly from nine in 1973–83 to two in 1983–93, while the number of subsequent projects has increased from 12 to 16. Power companies have found it increasingly difficult to find and develop initial sites and almost all of the growth in nuclear capacity over the last decade has occurred with subsequent projects. The same trends are observable in the siting of thermal power plants.

While power companies have experienced increasing difficulties in supplying electricity to meet increasing base and middle loads, they have also been experiencing difficulties in supplying electricity to meet peak load requirements. As Table 4 highlights, reserve margins have been declining at a time when load factors have also been declining. Reserve margins are a measure of the relationship between total capacity (potential supply) and peak electricity demand. They measure how much excess capacity is contained in the electricity system and provide an indicator of the level of insurance the system has to meet contingencies, such as unexpected surges in electricity demand or unexpected outages from accidents, around peak demand periods. For example, higher reserve margins imply a higher level of insurance to cover contingencies, while a lower reserve margin means a lower level of insurance against unexpected events.

Since 1983 average five-yearly reserve margins have dropped significantly from 20.2 per cent in 1978–83 to 8.3 per cent in 1988–93. Power companies generally believe that a reserve margin of about 10 per cent is optimal under circumstances where peak demand volatility is reasonable low. In this sense, reserve margins in the earlier period were much too high and resulted in sub-optimal reserve margins given that there was too much idle capacity in the system over and above what was felt to be required to provide an effective insurance
cover. While these margins have dropped (partly as a response to overly high margins but also due to the political difficulties in getting sites approved) and led to a considerable reduction in the amount of excess capacity, they are regarded as having been slightly on the low side, particularly given increasing peaks for the load and variations in the load. For example, reserve margins declined from 11.3 per cent in 1989 to 4.0 per cent in 1990, sparking concern in both industry and government circles of electricity shortages, which could well have occurred if Japan had experienced a particularly hot summer.

The difficulties in managing peak loads around both declining reserve margins and load factors are significant in two important ways. The first is that power companies are obliged legally to supply electricity to meet all demand contingencies. As there exist no escape clauses in regulations, either in the application or limits of liability, utilities face considerable costs in the event of power failure (Murayama 1994). Given expected electricity demand growth, particularly in the residential sector, this has created considerable concern about the risks of power failure; an overly hot summer could very lead to electricity shortages. The second is that declining load factors, or the increasing peaks of demand, implies increasingly amounts of excess or idle capital. Given the capital-intensive nature of the industry, even small declines in load factors have significant impact on the costs of supply.

These developments in siting and peak load management have been reflected in the increased economic costs of generating and transmitting electricity, particularly given the changing structure of financing the industry. Since the latter part of the 1980s, the share of the internal financing of investments through retained profits has declined, while financing through borrowing and company bonds in off-shore capital and bond markets has increased. Some observers suggest that debt–equity ratios in the electric power business are approximately 85 per cent, significantly higher than the 30–40 per cent figure for the average of the manufacturing industry (Komatsuzuki 1995). The increased exposure to interest and dividend costs has been important given longer lead-times and more idle capital as a result of worsening load factors.

As clearly highlighted in Table 6, the capital costs of generating electricity have increased steadily from 1973. From 1983 to 1993 the share of capital costs increased 57.2 per cent from ¥28,822 trillion to ¥45,311 trillion, while the share of fuel costs declined 48.7 per cent from ¥11,552 trillion yen to ¥5,928 trillion. By 1993 the share of capital costs to total costs had increased to 88.4 per cent, while the share of fuel costs had declined to 11.6 per.
cent. While the electricity industry is generally capital intensive, these data suggest that electricity prices have been increasingly dominated by capital costs, which increased from ¥19,980 kW to ¥23,794 per kW in the decade prior to 1993. The changing nature of financing capital formation, which has increased interest and dividend costs in the industry, is crucial in explaining the downward inflexibility of electricity prices relative to fuel import prices.

A composite breakdown of capital costs into plant, transmission and distribution, and repair costs for the period 1983–93 reveals three important trends. The first is that the share of plant costs has declined from 44.7 per cent to 31.7 per cent, reflecting the slow growth in building new capacity, and the lower capital costs for building projects on subsequent sites. The second is that the share of transmission and distribution costs has increased from 26.7 per cent to 40.4 per cent, reflecting importantly the ruralisation of power plant location, and more wheeling between the nine utilities. The third is that the share of repair costs has remained fairly consistent, at about 27 per cent. In 1993 transmission and distribution costs were the largest component of capital costs in the industry. This reflects importantly the increasing distance between generating capacity and end-user consumption associated with the ruralisation of power plant location.

Table 6  Capital and fuel costs of supplying electricity

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<thead>
<tr>
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<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total costs(a)</td>
<td>-</td>
<td>28,315</td>
<td>40,374</td>
<td>37,350</td>
<td>51,239</td>
</tr>
<tr>
<td>Capital costs</td>
<td>11,862</td>
<td>23,590</td>
<td>28,822</td>
<td>31,740</td>
<td>45,311</td>
</tr>
<tr>
<td>Percentage of total</td>
<td>(83.3)</td>
<td>(71.4)</td>
<td>(85.0)</td>
<td>(88.4)</td>
<td>57.2</td>
</tr>
<tr>
<td>10-year change</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fuel costs</td>
<td>-</td>
<td>4,725</td>
<td>11,552</td>
<td>5,610</td>
<td>5,928</td>
</tr>
<tr>
<td>Percentage of total</td>
<td>(16.7)</td>
<td>(28.6)</td>
<td>(15.0)</td>
<td>(11.6)</td>
<td>48.7</td>
</tr>
<tr>
<td>10-year change</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital costs(b)</td>
<td>14,053</td>
<td>20,054</td>
<td>19,980</td>
<td>19,257</td>
<td>23,794</td>
</tr>
<tr>
<td>Plant</td>
<td>4,448</td>
<td>7,642</td>
<td>12,884</td>
<td>11,231</td>
<td>14,316</td>
</tr>
<tr>
<td>(37.6)</td>
<td>(32.3)</td>
<td>(44.7)</td>
<td>(35.4)</td>
<td>(31.7)</td>
<td>57.2</td>
</tr>
<tr>
<td>Transmission</td>
<td>5728</td>
<td>10,557</td>
<td>7,703</td>
<td>11,247</td>
<td>18,340</td>
</tr>
<tr>
<td>(48.2)</td>
<td>(44.8)</td>
<td>(26.7)</td>
<td>(35.5)</td>
<td>(40.4)</td>
<td>57.2</td>
</tr>
<tr>
<td>Repair</td>
<td>1,686</td>
<td>5,391</td>
<td>8,235</td>
<td>9,252</td>
<td>12,655</td>
</tr>
<tr>
<td>(14.2)</td>
<td>(22.9)</td>
<td>(28.6)</td>
<td>(29.1)</td>
<td>(27.9)</td>
<td>57.2</td>
</tr>
</tbody>
</table>

Notes:  
\(a\) Trillion yen.  
\(b\) Yen per kW.

Source: Denki Jigyo Rengo Kai, Denki Jigyo Binran (various issues).
The downward rigidity of electricity prices in response to declining fuel import prices is a function of the inability of the regulated monopoly structure of the industry to meet effectively the changing structure of electricity markets. With electrification of the economy, both average and peak electricity demand, particularly in the residential sector, have been increasing rapidly. The costs of supplying electricity to meet that demand have also increased. The siting of new power plants has become increasingly difficult with the ruralisation of power plant location. The changing structure of financing the industry has increased interest and dividend payments. These developments have increased dramatically the capital costs of supplying electricity at a time when fuels costs have undergone a relative decline. These trends have made the management of base and middle loads, as well as peak loads, increasingly difficult.

The growth of competitors

Despite the regulated monopolistic structure of the electricity supply business in Japan, since 1983 there has been important substitution out of power company into in-house consumption and supply, particularly by non-utility generators in the industrial sector. In contrast to traditional electric utilities, non-utility producers do not have a franchised supply area and supply electricity through wholesale markets mainly to themselves and to franchised power companies. These non-utility producers have been increasingly eating into power company markets both on the demand and supply sides of the industrial sector. As non-utility generators developed excess supply, they increasingly provided wholesale electricity to the power companies.

Although the share of in-house consumption (IHC) to total electricity consumption, as illustrated in Table 7, declined in the decade after the oil crisis, it grew from 9.2 per cent to 11.2 per cent in the period 1983–93. Most of the IHC in Japan has occurred in the industrial sector, which has consistently consumed between 93 and 95 per cent of total IHC since 1973. There is virtually no IHC in the residential sector, and where it occurs it is mainly in the commercial sector, not in the household sector. There is some IHC in the transport sector mainly by the railway companies, although this has only comprised 4–6 per cent of total IHC. The industrial sector dominates IHC of electricity in Japan.

While aggregate figures suggest some growth in IHC, a closer examination of the industrial sector reveals that the share of IHC in the industrial sector in 1993 comprised 22.3
4.20 per cent of total electricity consumption in that sector, rising steadily from 16.1 per cent in 1983. In 1993 some industries such as petrochemical, paper and pulp and oil products consumed over 70 per cent of their total electricity demands from IHC. In short, industrial users have been increasingly substituting out of consumption of electricity from power companies into consumption of their own self-generated electricity, accounting in 1993 for about a quarter of total industry consumption. After the United States, Japan is the largest IHC user in the world.

On the supply side, the share of electricity supplied by non-utility producers through IHC to total electricity supply showed similar trends. It is useful to compare non-utility electricity production in the industrial sector with that of the EPDC, a predominantly state-owned wholesale producer. As shown in Table 8, the non-utility and EPDC share declined in the decade after 1973, but expanded from 15.5 per cent in 1983 to 17.1 per cent in 1993. The share of hydro-electric supply remain fairly consistent, at around 27 per cent, with the EPDC dominating that share. The share of oil and coal thermal generation increased steadily from 1973 from 21.1 per cent to 48.3 per cent in 1993, with non-utility producers in the industrial sector dominating that share. These alternative suppliers have no nuclear capacity and very little LNG capacity, and supplied virtually no electricity from these sources.

These data suggest that the growth of alternative supply has come about mainly with the increased supply of non-LNG thermal supply, and in 1993 accounted for about half of the

<table>
<thead>
<tr>
<th>Table 7</th>
<th>Trends in in-house electricity consumption (IHC)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total IHC</td>
<td>4,735</td>
</tr>
<tr>
<td>IHC share of total</td>
<td>13.3</td>
</tr>
<tr>
<td>Sector share of IHC</td>
<td></td>
</tr>
<tr>
<td>Industrial</td>
<td>95.8</td>
</tr>
<tr>
<td>Residential</td>
<td>0.0</td>
</tr>
<tr>
<td>Transportation</td>
<td>4.2</td>
</tr>
<tr>
<td>IHC share of total industrial demand</td>
<td>19.3</td>
</tr>
</tbody>
</table>

Note: a 10*10 kcal.

Source: Compiled from Shigen Enerugii Cho, Sogo Enerugii Tokei (various issues).
total electricity supply. The EPDC increased its share of thermal supply from 1973 to 1983, but its share remained stable after that. The major players have been private non-utility generators in the industrial sector, whose share increased quite significantly from 1983. With continued structural change in that sector, these producers have experienced steady increases in excess supply, growing from 5856 million kWh in 1973 to 15,540 million kWh in 1993. They have been supplying this excess to power companies through wholesale markets. It has been alternative private suppliers, and not the state-controlled EPDC, which have come to dominate the increased share of non-utility electricity supply.

These developments have reflected the changing relative costs of supply between non-utility private generators and the power companies (Hasegawa 1995). Non-utilities have been able to supply thermal electricity more cheaply than the power companies for several reasons.

The first relates to political siting constraints. The non-utilities already have the land on which to construct new capacity as they either downsize or move industrial production off-shore. Perhaps even more importantly for coastal sites, they have already purchased expensive fishing rights. The second relates to their increased use of co-generation. Compared to conventional systems which produce electricity but waste heat, co-generation uses that wasted heat to drive a prime mover, and puts such heat to use in a range of cooling and heating needs. The third is that they incur less capital costs as capital costs for oil and coal-fired thermal plants are significantly less than the capital costs of nuclear and LNG thermal plants.

Table 7  Trends in in-house electricity consumption (IHC)

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total IHC</td>
<td>4,735</td>
<td>4,812</td>
<td>4,294</td>
<td>6,098</td>
<td>7,676</td>
</tr>
<tr>
<td>IHC share of total</td>
<td>13.3</td>
<td>10.7</td>
<td>9.2</td>
<td>10.7</td>
<td>11.2</td>
</tr>
<tr>
<td>Sector share of IHC</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industrial</td>
<td>95.8</td>
<td>94.9</td>
<td>93.4</td>
<td>93.7</td>
<td>94.0</td>
</tr>
<tr>
<td>Residential</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Transportation</td>
<td>4.2</td>
<td>5.1</td>
<td>6.6</td>
<td>6.3</td>
<td>6.0</td>
</tr>
<tr>
<td>IHC share of total industrial demand</td>
<td>19.3</td>
<td>17.5</td>
<td>16.1</td>
<td>19.5</td>
<td>22.3</td>
</tr>
</tbody>
</table>

Note: a 10^10 kcal.

Source: Compiled from Shigen Enerugii Cho, Sogo Enerugii Tokei (various issues).
The fourth is that given proximity to load centres (much of the industrial capacity is located in urban areas), they do not incur expensive transmission and distribution costs associated with the supply of that electricity.

The supply of thermal generation by non-utility generators has increased at a time when power companies have encountered increasing difficulties in meeting electricity demand. The use of varying supply sources to meet different demands is mainly a function of capital and fuel costs. Nuclear power usually serves in base loads as it has a relatively low operating cost. Thermal power generally serves in upper base loads, and middle and peak loads, as capital costs are much less than nuclear and can respond more efficiently to power demand changes. Coal is used mainly in upper base to middle loads. LNG and other gases are mainly used in middle loads. Oil and different types of hydro-electricity power are mainly used in peak loads. This suggests that non-utility producers have been eating into the upper base and lower middle loads, and the peak loads of the power companies.

Three important conclusions emerge with respect to the growth of alternative consumption and supply of electricity outside the scope of the power companies. The first is that it has been private non-utility generators and not the state-controlled EPDC which have emerged as a major alternative supplier. The second is that the key developments have occurred in the declining industrial sector. Demand growth has been concentrated in this sector, and supply growth has also been concentrated in that sector particularly in the supply of electricity from non-LNG thermal power (Matsukawa et al. 1993). The third is that there have been significantly fewer alternatives in the residential sector, the most rapidly growing sector in terms of electricity consumption. This sector has continued to consume almost all of its electricity from the power companies even though there has been a significant growth in private non-utility generation. Furthermore, these private electricity producers have not been able to develop any meaningful alternative electricity supply capacity — particularly in the commercial sector.

**Conflict and the management of reform**

Despite significant fuel import price declines during the 1980s and 1990s, the rapid increases in demand, particularly around residential demand, and the increasing political and capital costs of generating and transmitting electricity have created price rigidities in electricity
markets. The downward inflexibility of electricity prices strengthened perceptions of comparatively high electricity prices and created powerful market, bureaucratic and political pressures for change to the traditional economic and regulatory structures governing the operation of electricity markets in Japan.

The pressure for reform emerged from business. In particular, non-utility suppliers which had already eaten into power company markets through more efficient in-house electricity supply were the driving force for reform in electricity markets. Many of these suppliers were in declining industries such as steel, petrochemicals and cement, and saw the opening up of markets as a means of developing new business opportunities to cope with structural change and the difficult economic circumstances facing the economy in the 1990s. Other companies such as heavy engineering, real estate, car makers, and oil and gas companies as well as trading companies were also interested in reform as a means of enhancing business opportunities. For example, Mitsubishi, having already been involved with supplying electricity in US set up an organisational structure to spearhead its entry into the electricity business (Mainichi Shimbun, 28 October 1994).

Consumers also pressured for reforms in electricity markets. Given electrification of the economy, electricity prices had become a much more important element determining the competitiveness of industry. Even though industrial IHC had grown, many industries still relied on electricity generated by power companies and were restricted from consuming electricity from alternative suppliers such as those in industry. The commercial sector also wanted to consume cheaper electricity, particularly given the importance of electricity prices to the international competitiveness of that sector. Like industry, it was constrained from consuming alternative electricity even though more and more alternatives were becoming available. Electricity prices were putting a drag on the sector increasingly contributing to the health of the Japanese economy. Residential consumers also increasingly began to perceive the existing regulatory structures that supported monopolies as being ‘consumer unfriendly’ (Nihon Keizai Shimbun, 10 January and 19 April 1995). Indeed, one survey indicated that public concerns about ‘price’ tripled between 1994 and 1995 and were focused on issues of ‘safety’, traditionally the dominant concern about power plants (Asahi Shimbun, 6 June 1995).

These pressures filtered through into consistent bureaucratic pressure for reform at both national and local levels. For example, the Ministry of Welfare (MOW) was very supportive of reform. MOW was particularly interested in encouraging more waste generation
as a means of managing Japan’s waste problem, particularly given the increasing competitiveness of that form of generation. It estimated that waste generation could be increased by 6–8 times by 2010 (Tokyo Yomiuri Shimbun, 25 September 1994). The Economic Planning Agency (EPA) was also interested in reform in terms of reducing electricity prices which it saw as having adverse impacts on economic recovery (Nihon Keizai Shimbun, 19 April 1995). In addition, local governments also became interested in the supply of electricity through waste generation and, like MOW saw it as a means of alleviating the increasing problem of waste in Japan (Sankei Shimbun, 22 June 1994).

Political pressure for reform was also strong even given political party instabilities during the 1990s. Reforming electricity markets was part of a broader political, administrative and economic reform process. For example, in 1993 Prime Minister Hosokawa stressed ‘systematic inefficiencies epitomised by disparities between domestic and overseas prices for a wide range of items’, and that his government had decided that ‘to ensure that the benefits of yen appreciation are passed along, we have decided to quickly implement measures such as to ensure that electricity customers … benefit from the yen’s strength’. Murayama continued the same policy line. There was certainly strong bipartisan party support among the major political parties during the first half of the 1990s for reforming electricity markets.

As the regulator of the power industry, MITI played a major role in pushing for reform in electricity markets and utilised its advisory committee structure to decide on reform policies. It was particularly concerned about how to address the perceptions about rigidities in electricity prices. It knew that it had to find ways to reduce licensing requirements. But it also knew it had to go further and relax regulations governing access to both wholesale and retail electricity markets for new entrants and make changes to the existing electricity pricing arrangements. While MITI was willing to reduce some licensing regulations, it was not willing to weaken its jurisdiction over pricing. If anything, MITI sought to strengthen its regulatory control over pricing arrangements.

The power industry resisted changes which it perceived would weaken its monopoly control over electricity markets. It pushed very strongly for reducing government regulation, particularly in inspection processes, as this would enhance its control over the construction and operation of power facilities. It opposed changing regulations which would make market access for new entrants easier and affect its position significantly as suppliers. It also resisted strongly any changes to pricing arrangements which gave MITI and other new entrants more
control over tariff determination. In short, the power industry opposed regulatory changes that it perceived might weaken monopoly control and inject significant competition into electricity markets.

Three sets of overlapping conflicts between consumers, producers and regulators emerged in policy processes. The first was the conflict between consumers and producers. Consumers demanded the introduction of more competitive pricing, while producers were hesitant to alter monopoly pricing practices. The second was conflict on the supply side between private non-utility producers and the power companies. Non-utility suppliers also wanted to see more competitive markets introduced so that they could enter the electricity business, which the power companies opposed, fearing a loss of their monopoly positions in the market. The third was conflict between private consumers and suppliers and the main regulator, MITI. Private interests wanted considerably changed legal powers of the state, while MITI was hesitant to decrease its jurisdiction over markets. These disputes were not only about change in market structures (monopoly versus competition); they were also about change in state jurisdiction (legal power versus private power) in electricity markets.

The issue of multiple pre-inspection safety regulations in the construction and operation of power plants was resolved quite quickly, although MITI was firmly adequate that nuclear safety remained a sensitive issue (Sankei Shimbun, 21 February 1994). MITI was susceptible to power industry arguments that minimising red tape would help alleviate costs and, therefore, would put downward pressure on prices for the power companies as well reduce market entry costs to new entrants. These regulations were not only costly in terms of inspection costs but also in terms of increasing the proportion of interest repayment burdens in overall capital costs, as they occurred during construction, when power companies were borrowing heavily to finance construction. Inspection costs for the industry were estimated to be about ¥10 billion per year (Nihon Keizai Shimbun, 5 December 1994). One power company official summed up the power industry’s concern about regulations: ‘to build one transmission line, even after community agreement, requires about three months of work producing documents filling fifteen danbooru [corrugated cardboard boxes]’ (Sankei Shimbun, 21 February 1994).

If the power industry thought that managing the price differential problem was simply a matter of reducing bureaucratic red tape, then they were wrong (Nihon Keizai Shimbun, 24 November 1994). MITI had a much more comprehensive agenda in mind. It was interested in opening up both the wholesale markets through a tendering system and retail electricity.
markets through relaxing regulations to new entrants, particularly those in declining industries which had already had experience with in-house generation. As already noted, in-house generation and consumption had become increasingly economic given the ruralisation of plant location by power companies. Doing this would provide opportunities for redevelopment in regions suffering from structural change (*Nihon Keizai Shimbun*, 16 May 1995). Facilitating the creation of new business opportunities was crucial. MITI was worried that a lack of such opportunities would increase pressure from declining industries for more state assistance to manage structural reform. MITI estimated that 10–20 per cent of new electricity generation could come from new entrants and that this would produce even further downward pressure on electricity prices (*Mainichi Shimbun*, 22 June 1994). Given the particularly tight budgetary situation and competing claims for scarce budgetary resources, MITI had a strong bargaining chip in its negotiations about reform with the power industry.

The power industry was generally opposed to the relaxation of regulations designed to keep new entrants out of the market, and encouraged competitive market entry into those markets. Of particular importance was the issue of stranded investment, or facilities that would become stranded in the face of new entrants entering the market. New investment, which could make some power plants uneconomic even before they were ready for decommissioning, would be costly for power companies, and might even lead to net increases in electricity prices, particularly given the increased capital costs of plants and higher than optimal levels excess (idle) capacity in the system. Power companies also feared probable financial volatility in the industry with any significant growth of stranded investment. Furthermore, planned new investment could also destabilise power company siting plans. It could cause power companies to delay sensitive community negotiations and cause political backlashes where communities were expecting large social and economic benefits associated with power plant developments. Stranded investment had implications not only for the economics of projects but also for political bargaining with local community interests for proposed projects. The arguments gave the power industry important negotiating chips in its conflict with MITI.

The intensity of concern about stranded investment varied amongst larger and smaller power companies. The larger power companies such as Tokyo, Kansai and Chubu Electric were less resistant to new entrants, given the increasing difficulties, as mentioned earlier, of meeting electricity demand increases. It was in their interests to have alternative suppliers providing the more costly middle and peak load electricity requirements provided they had
influence over the pace and extent of these new sources. The smaller power companies such as Hokkaido, chugoku and Shikoku Electric were very resistant to new entrants into their regional electricity spheres. Indeed, a reasonable amount of in-house generation was already being supplied by non-utilities in regional Japan (Nihon Keizai Shimbun, 24 November 1994).

The small power companies had significantly smaller grids and the impact of an additional supply outside their control would impact on their supply network much more heavily in terms of stranded investment than it would in the case of the larger power companies (Nikkei Sangyo Shimbun, 30 June 1995).

Both MITI and the power industry held important bargaining chips on the issue of new entrants to electricity markets despite strong pressures for reform. An agreement was worked out which allowed for new entrants to enter the market, but in a way which would not create a major stranded investment problem for the utilities. The power industry was able to influence the determination of avoided costs, or the tender price above which power companies would not be required to accept tenders, and other conditions, such as length of supply contracts. In return, the power industry would be obliged to declare the amount for tender in their annual construction plans and would be obliged to give successful tenders access to transmission lines. Furthermore, the power industry also agreed to relax regulations for new entrants in retail markets. While new entrants are mostly constrained to supply within certain designated areas, they only have to notify MITI of entry and have more freedom in setting prices (Tokyo Yomiuri Shimbun, 22 November 1994; Mainichi Shimbun, 8 December 1994). MITI, in order to placate the desires of new entrants, decided to provide them with low interest loans and finance through the Japan Development Bank; up to 50 per cent generally, and up to 70 per cent for retail supply to areas earmarked for large-scale redevelopment (Tokyo Yomiuri Shimbun, 5 September 1995). In short, MITI was seeking to subsidise new entrants by actually increasing the avoided costs set by the utilities and thus make market entry easier.

The most contentious aspect of the new regulations related to the pricing system. reforming the pricing system was a crucial objective of MITI. After all, it was the large and increasing price differentials between domestic and foreign electricity prices which provided the political stimulus for reform of the sector. Initially, MITI argued relentlessly for a price cap system (Nihon Keizai Shimbun, 6 October and 28 October 1994). Under this system, a ceiling on prices would be determined by MITI based on average existing electricity prices, adding CPI, fuel and other costs, and discounting that for productivity improvements. It was
envisaged that power companies would be free to set prices as long as they were below the maximum ceiling price (Nihon Keizai Shimbun, 28 October and 25 November 1994). This system was designed to alter existing full cost rate setting rules, which were based on production and management costs together a remuneration component of 7.2 per cent and favoured power companies (profits) over consumers (welfare). MITI stressed a lack of ‘price consciousness’ within the power industry, and the need to change the pricing rules in order to induce more efficiency into power company management (Tokyo Yomiuri Shimbun, 12 October, 28 November and 17 December 1994). The price cap system was designed to manage the political problem of high electricity prices by putting an upper lid on electricity prices.

The power industry vehemently opposed the price cap system. It put forward several arguments to support its case. First, on a purchasing power parity (PPP) basis, electricity prices in Japan are favourable compared to prices overseas. As Japanese electricity is not traded internationally, it is the PPP price which should be used in assessing comparative prices (Nikkei Sangyo Shimbun, 14 September 1994; Nikkei Keizai Shimbun, 29 September 1994). Second, the industry argued that it will not be able to finance projects with such a price system given increasing capital costs. Third, it argued that the industry was already reducing prices (seven times since the 1986 under provisional price declines) and that, given the high proportion of capital costs in total costs, the industry had little room to lower prices further (Sankei Shimbun, 8 October 1994; Nihon Keizai Shimbun, 20 October 1994; Asahi Shimbun, 5 November 1994). The industry also argued that there would be severe employment consequences not only because of the downsizing of power companies themselves but also because fewer projects would be built (Sankei Shimbun, 8 October 1994; Asahi Shimbun, 23 November 1994). While all these arguments had some truth to them, it was really the changing of the pricing rules, and the perceived changes to the control power companies had over pricing, that concerned the power industry most.

While MITI was pushing the price cap system very hard, this resistance by the power industry, and concern amongst consumers as well, forced it to re-evaluate its position. MITI set up a public hearing in October 1994 to ascertain views from both suppliers and consumers about the price cap system. The power industry was concerned that it would be difficult to get approval to increase prices above the ceiling even if the situation warranted it. Consumers were also worried and argued that power companies would probably set prices at levels very close to the ceiling and that they would be reluctant to reduce them even in response to fuel
import cost changes (Nihon Keizai Shimbun, 28 October 1994). MITI had also become worried about this given the relatively small number of suppliers operating in any one electricity sphere even with some new entrants (Asahi Shimbun, 6 October 1994). Suppliers and consumers were also concerned about the lack of transparency in terms of the setting of the price ceiling (Nihon Keizai Shimbun, 28 October 1994).

During the latter half of 1994 and in 1995, political and bureaucratic pressure was building rapidly for a reduction in electricity prices. The appreciation of the yen had led to perceptions that Murayama’s coalition policy of passing the benefits from yen appreciation onto electricity consumers was not working (Sankei Shimbun, 16 June 1994; Tokyo Yomiuri Shimbun, 19 July 1994; Nihon Keizai Shimbun, 10 January and 16 May 1995). Without support from suppliers and consumers, MITI was forced to deal with the pricing issue. It decided to abandon the price cap formula in favour of the yardstick method for setting electricity prices and increased options for pricing (Tokyo Yomiuri Shimbun, 25 November 1994). In essence, this method compares cost and management indicators among utilities and sets a uniform standard. It aims to provide indirect incentives for power companies to become more efficient, as it penalises less efficient suppliers (Asahi Shimbun, 23 November 1994, 1 June 1995). In terms of other pricing options, MITI proposed a fuel price adjustment clause so that prices would be more responsive to fuel import price changes, and more flexibility for power companies in the setting of electricity prices in terms of time-based contracts (Tokyo Yomiuri Shimbun, 27 January 1995).

The yardstick pricing method, together with other flexible pricing options, was certainly favoured by the power industry more than the price cap method as a means of managing electricity prices because it was regarded as more efficient, more flexible and fairer (Tokyo Yomiuri Shimbun, 26 July, 25 November and 26 November 1994). In particular, it addressed the concerns of smaller power companies because it grouped them together in terms of indicators. In short, it took regional characteristics into account in encouraging indirect competition (Asahi Shimbun, 26 November 1994). But the power industry was most resistant to the idea of providing management information to MITI, particularly management rationalisation plans. It felt that the MITI was involving itself too closely with core company decisions and that it would give MITI too much discretionary power over company management (Tokyo Yomiuri Shimbun, 16 December 1994). One company official noted that under the system, power companies will have to give more information to MITI than to its own stockholders (Tokyo Yomiuri Shimbun, 26 July 1995; Mainichi Shimbun, 26 July 1995).
MITI held strong bargaining chips in terms of the yardstick pricing method. It could have argued that it would reduce subsidies to the power industry if it had to provide too much assistance to declining industries. Funds being directed from the Three Laws into MITI special accounts for managing siting constraints had increased dramatically given that new plant construction had slowed considerably. Furthermore, MITI had already agreed to reduce licensing requirements significantly, to address the industries’ concerns over stranded investment issues around new entrants to the market, and to introduce more flexible pricing options for the power industry. MITI used these bargaining chips to achieve increased administrative and discretionary power over electricity pricing. In the face of strong resistance, it forced electricity price reductions on the industry in the middle of 1995 (Nihon Keizai Shimbun, 5 June 1995). It followed that up with a more fundamental decision in October 1995 to reduce the ‘fair remuneration component’ of the existing electricity pricing formula from 7.2 per cent to 5.3 per cent, thus directly reducing power company profits (Nihon Keizai Shimbun, 29 October 1995).

It is useful to examine briefly the processes and outcomes of first use of the yardstick pricing rules and the first set of tenders, both of which occurred in late 1995 to provide some preliminary assessment of the impact of the changes to the Electric Utility Industry Law in terms of reducing electricity prices in the short term and also encouraging change to the structure of markets over the medium to longer terms.

In late 1995, under further market and political pressure to reduce electricity prices, the power companies applied to MITI for an average price decline of 3.04 per cent. MITI approved a price decline of 4.21 per cent. MITI utilised the yardstick pricing method to assess these applications. It is clear that MITI was focusing heavily on the efficiency of power companies in terms of deciding on the extent to which electricity prices should be reduced among the various utilities. This can be shown from analysing the relationship between, on the one hand, the difference between the ‘desired’ and ‘actual’ price declines and, on the other, the grouping of companies in terms of general cost and management indicators. Relatively efficient companies (as determined by MITI’s yardstick method) such as Chubu and Hokuriku Electric registered smaller divergences (0.87 and 0.75 per cent, respectively). On the other hand, less efficient companies such as Tohoku, Kansai, Chugoku and Kyushu Electric showed relatively larger divergences (1.31, 1.30, 1.35 and 1.65 per cent respectively) (Asahi Shimbun, 20 December 1995).
As expected, company interest from new entrants in tender briefings was significant. This interest soon led to complaints by many companies that the power industry was inhibiting the tender process. There were complaints that some of the smaller electric power companies were not offering any tenders. As expected, the biggest complaint was that the tender price was set too low, a strategy which was perceived as being used by the power companies to price new entrants out of the market. Furthermore, there was resistance to other conditions set by some power companies. For example, Kansai and Chubu Electric formulated the condition that only companies which had facilities willing to supply electricity solely to power companies would be permitted to submit tenders. Despite this conflict, power companies accepted 10.8 million kW of new capacity up to the year 2002. This is quite significant. If no other tenders which allow for operations to start by 2002 are called for, then based on 1995 electricity supply estimates, this will represent about half of marginal capacity planned for the period. Under the same assumptions, it will represent 6 per cent of total supply capacity. If one assumes that further tenders are likely, then MITI may come very close to achieving the lower end of its goal of supplying 10–20 per cent of total electricity by new entrants over the medium term.

**Concluding observations**

Deregulation and reform rarely result in the complete elimination of the regulatory influences of a previously regulated industry. In Japanese electricity markets, deregulation and market reform have been highly conflictual and are likely to involve a protracted process. The revised Electric Utility Industry Law does not seek to break up those monopolies which traditionally controlled electricity markets. Rather, it seeks to manage short-term political pressures to reduce prices and, at the same time, to encourage more competition over the medium to longer terms by altering the market structure with the entry of alternative suppliers. The process of reforming Japanese electricity markets is likely to be a continuing one.

The motivation for introducing recent revisions to the Electric Utility Industry Law was related to pressures from alternative suppliers and consumers in electricity markets in the context of a broader set of economic, political and bureaucratic pressures for reform in Japan. Given increasing electricity prices in Japan in relation to fuel import prices and to other nations, the major players in electricity markets agree that there needed to be change. Consumers and
alternative suppliers wanted to break the stranglehold of the power companies in order to reap more opportunities to consume and supply cheaper electricity in growing markets. The power companies wanted less state regulation over the construction and operation of power plants in the hope that that would ease increasing costs in the industry. MITI was supportive of injecting more competition in electricity markets although it was hesitant to alter its regulatory power in a way which would weaken its jurisdiction over those markets. The policy conflict which ensued revolved around market power (monopoly versus competition) and legal power (state intervention versus deregulation).

The outcomes of these conflicts resulted in three majors sets of changes to the Electricity Utility Industry Law. First, it reduces the role of the state in licensing, and gives the power industry more corporate responsibility over safety for non-nuclear plants, or balancing the risks and benefits of power stations. Second, it encourages new entrants into both wholesale and retail markets by relaxing a range of regulations, although power companies, for example, still retain some influence over the extent and pace to which IPPs can enter the market. Third, it provides incentives to utilities to become more responsive to price differentials by introducing, for example, the yardstick method, which aims to encourage indirect competition between utilities. The first use of the yardstick pricing method and the tendering system for IPPs does suggest some movement towards lower electricity prices in the short term and increasing non-utility electricity supply over the longer term.

It is useful to put these changes in the context of the politics of reciprocal consent. Historically, private monopolies have been able to successfully and consistently prevent state interventions aimed at nationalising electricity supply and increasing state power of those markets. The private sector was able to do this through a bargaining process where it gave the state jurisdiction over electricity markets but only in return for maintaining private ownership and control over the industry. These processes yielded an industrial structure where Japan was one of the few advanced countries to have private ownership of electric power; many of the others having public ownership of electricity supply and distribution.

The recent dispute in electricity markets is similar in terms of the process of negotiated consent, but differs from these historical outcomes in two important ways. The first relates to the distribution of power between the private monopolies and the state. In return for reducing state intervention in licensing (giving power companies more responsibility for the managing safety), the state increased its influence over market entry (relaxing regulations for
new entrants) and pricing (introducing a yardstick pricing method to encourage more indirect competition). Even though the power industry still influences tendering conditions in wholesale markets, MITI has been able to enhance its influence over market entry through a combination of changing regulations governing retail pricing and by providing subsidies to new entrants. The power industry was too strong to enable supporters of reform to ‘structurally’ displace monopoly power quickly but MITI was able to re-regulate to give it instruments to affect the ‘conduct’ of both the power companies and new entrants. In short, MITI used short-term political pressures for reducing electricity prices to revise regulations in a way which not only gave it more influence to not only reduce prices but also gave it the instruments to encourage longer term goals of injecting more competitive practices into electricity markets.

The second point relates to the distribution of power within the private sector between the power companies and new entrants to markets. Through the changed regulatory framework, alternative producers have been given more opportunities to enter electricity markets. Alternative producers are now able to enter, in a limited way, wholesale and retail markets in the supply of power, although they are still constrained from supplying nuclear and hydro-electric power. They also have been able to gain more just and transparent access to transmission and distribution facilities so that they can engage in wheeling and dealing. While the power companies still dominate base and middle load supply, alternative producers have been given more access to the upper base and middle loads, and to the lower peak load. Yet, without the strong support of MITI, these alternative producers would not have been able to manage the monopolist’s strategy of reducing prices in the short term to keep new entrants out of the market. The reform process allows for more access for new entrants and, if they remain competitive, they are likely to expand their role in electricity markets over time.

While the power industry historically in Japan has been able to retain control over ownership in return for the state exercising jurisdiction over it, pressures for and the process of reform have altered in subtle ways the power balance between utilities and MITI. MITI’s relative influence over licensing has declined, but its influence over pricing and therefore over the longer term structure of electricity markets has increased. The ‘politics of reciprocal consent’ remains the most apt conceptualisation of the history of Japanese energy markets. Yet, ironically, pressures for economic deregulation and reform are likely to require a bigger role for government, if these pressures are to be translated into relatively more wheeling and dealing in electricity markets.
Notes

1. For a good overview of the history of electricity in pricing in Japan and elements of this pricing system, see Shin Denki Jigyo Koza (1980), Section 5.

2. For a summary of the revisions to the Electric Utility Industry Law, see FEPC (1995).

3. Some observers suggest that the licences required have reduced by about 90 per cent. See Nihon Keizai Shimbun, 1 December 1994.

4. An IPP typically refers to a power project developed under conditions such as bidding with most if not all electricity sold to a utility company.

5. Indeed, the siting of transmission lines is just as difficult as siting actual power plants in Japan.


7. For example, the number of air-conditioners and colour TVs per hundred households increased from 9 and 43 in 1970 to 147 and 208 respectively in 1992. See the data contained in Nihon Keizai Kenkyu Sho (1995) on residential demand.

8. On a seasonal basis, since 1969 system peak demand in Japan has shifted from winter to summer.


10. It may be more appropriate in Japan to use the acronym NIMFF (not in my fishing field) rather than the more commonly used NIMBY (not in my back-yard).

11. See Lesbirel (1996) for a discussion of both types of mechanisms.

12. The lower capital costs for subsequent projects reflects the fact that infrastructure such as roads, ports and transmission lines have already been constructed to service initial process.

13. See Mizutani (1989) for an examination of the growth of co-generation in Japan.


15. For a good report on Japan’s waste management problem, see The Nikkei Weekly, 9 December 1996.

16. See Policy Speech by Prime Minister Morihiro Hosokawa to the 128th Session of the National Diet, 21 September 1995.

17. See Policy Speech by Prime Minister Tomiichi Murayama to the 134th Session of the National Diet, 29 September 1995.
MITI also argued that efficient co-generation would be 10–15 per cent cheaper than existing electricity prices (see Sankei Shimbun, 22 June 1994). The oil industry argued that it could produce oil-fired generation more cheaply than nuclear generation (see Nihon Keizai Shimbun, 14 September 1994).

Even with more economic capacity coming on line, decommissioning existing capacity, providing it was still economic, would increase the capital costs of power companies and that would likely be passed on to consumers in the form of higher electricity prices.

A case in point was the siting of the Tomari nuclear plant. After initially planning to locate the plant on the border of Kyowa town and Tomari village, Hokkaido electric decided to change the location of the project to a site solely within Tomari. Kyowa village had expected large benefits from the project, which were now going to go mainly to Tomari. Local residents commenced a recall movement to oust the local mayor. Hokkaido Electric provide compensation to Kyowa village for expected losses to be incurred for ‘not going ahead’ with the project.

The Three Laws tax power companies on electricity sold (although the ultimate burden falls on consumers), with funds being directed into MITI Special Accounts for the purposes of facilitating power companies in their efforts to site energy facilities. For more details see, Lesbirel (1996). For example, revenue in this Special Account of MITI increased markedly from ¥193.5 billion in 1993 to ¥222.3 billion in 1995 (Shigen Enerugii Cho 1996).

Calculated from data contained in Asahi Shimbun, 14 December 1995.

These totalled 290 for Tokyo Electric and 170 companies for Kansai Electric. See Tokyo Yomiuri Shimbun, 7 November 1995; and Osaka Yomiuri Shimbun, 8 November 1995.

These included Okinawa, Hokuriku, Chugoku and Shikoku Electric Power Companies. (See Nihon Keizai Shimbun, 1 December 1995).

The prices were ¥10 per kWh for base loads and ¥33 per kWh for peak loads for both Tokyo and Kansai Electric. See Mainichi Shimbun, 22 June 1994; Tokyo Yomiuri Shimbun, 7 November 1995; and Osaka Yomiuri Shimbun, 8 November 1995.

See Nihon Keizai Shimbun, 1 December 1995. This condition was obviously formulated for supply security reasons particularly around peak load requirements but it had the effect of cutting out companies which wanted to sell excess capacity after satisfying in-house requirements to power companies from the tendering process.
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Japan’s Local Government in an Era of Reform

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5. JAPAN’S LOCAL GOVERNMENT IN AN ERA OF REFORM

Introduction

In the last several years no other issue has attracted as much attention in Japan as reform — be it economic, political or administrative. In the general election held in October 1996, almost all political parties listed ‘reform’ as an essential part of their platform. While reform has been a central concern of the Japanese government for the past two decades, its intensity has increased greatly in recent years as a result of the 1990s economic recession — the longest Japan has ever faced; the non-performance of Japan’s financial and economic institutions; and a series of political and financial scandals. There is now even more external pressure on Japan to reform its institutions and establish a more liberal economic and political regime. On top of this, a number of domestic political and economic interest groups also favour reform that will lead to further deregulation, less centralised control and decentralisation of government functions. In one form or another, reform occupies the agenda of policy-makers at all levels and Japan’s local level administrative and political arenas are no exception.

Local government: traditionalists and revisionists

The idea of local self-government and the principle of local autonomy were given legal status for the first time in Japan under its new Constitution of 1947. The Occupation authorities wanted to decentralise Japan as much as was possible and, to that end, several laws including the Local Autonomy Law (LAL) were enacted to implement the constitutional provisions. However, the degree to which Japan’s local governments enjoy autonomy has been a subject of great debate. Broadly, two distinct views exist with respect to local autonomy in Japan. The first view — held by the traditionalists — holds that local governments in Japan lack autonomy and that their decision-making power is extremely limited due to control and domination by the national ministries (Steiner 1965; Isomura and Hoshino 1975). Such control comes in various garbs, including financial and administrative. The other view — held by the revisionists — argues that Japanese local governments enjoy significant policy leeway, that empirical evidence suggests that legal constraints do not stand in the way of policy innovations and initiatives, and that local governments have thereby been able to provide a range of services.
to their local residents (Muramatsu 1988, 1994; Reed 1982; Samuels 1984; Steiner et al. 1980). There is now enough evidence to suggest that over the years local governments have become active in a number of policy areas and have been able to establish innovative policies, sometimes even ahead of the central government. At the same time, there remains dissatisfaction with the current national-local relationship and demands are growing stronger to remove legal restrictions on local governments and to devolve financial and administrative power to the subnational level (Jinno et al. 1996). The present arrangements with respect to distribution of functions between the national and local governments are vague and create a great deal of confusion in the minds of local residents. It is therefore claimed that a clearer division of functions and increased local autonomy need to be established to enable local governments to act even more effectively and efficiently, to allow them to deliver services such as social welfare according to local needs, and to make local governments accountable to local residents for their performance.

The aim of this paper is not to promote one or the other explanatory model of Japan’s local government; the goal, rather, is to highlight some of the issues facing Japan’s local governments and the current debate surrounding those issues, including how they are being addressed by policy-makers and with what results. Most of the issues currently in the spotlight are not new; they have been there for most of the postwar period. What is new is the intensity of the debate and the larger arena in which a wide ranging group of people are now participating. In the past, local autonomy issues were discussed mainly by academics, and demand for the removal of central control came principally from ‘progressive local governments’ (kakushin jichitai). Now, however, a growing number of politicians of all political persuasions both at local and national levels are arguing in favour of local autonomy and decentralisation of government functions. For example, the leader of the Japan New Party Hosokawa Morihiro, in his capacity as Prime Minister, declared in August 1993 that ‘I intend to work steadfastly to expand and promote regional government, with the goal of realizing the “principle of local autonomy” described in the Constitution’ (Hosokawa 1993, p. 36). Added to these voices are those of the local business communities, which expect their local governments to be economically proactive in promoting local economy.

The issues

Despite the revisionists’ claim that local governments are effective policy-making bodies and that they are able to innovate in the face of central control, there is now a growing acceptance
in Japan that the system is far too centralised and rigid and does not allow local governments to cope with the changing demands of Japanese society and the new economic structure. Moreover, the process of globalisation has added further pressure on local governments to take on a range of new functions that they have been unable hitherto to perform because of financial, legal and administrative constraints. It is for this reason that decentralisation is being advocated (Hoshino 1996). Local government reform and decentralisation is mentioned in a number of contexts: overconcentration of national functions in Tokyo, the local financial system, and the organisation of local public administration.

*Overconcentration on Tokyo*

Most commentators have argued at length that Japan’s national capital is overconcentrated in many respects. This problem was also clearly recognised in the Fourth National Comprehensive Development Plan adopted in 1987. Tokyo is not only the political capital of Japan, it is also its economic, cultural, financial and information centre. In some regards, Tokyo is no different from many other capital cities around the world, which also tend to be overconcentrated in terms of serving as major centres for economic and political functions. However, what makes Tokyo vastly different from those capital cities is the immense regulative power that Kasumigaseki bureaucrats enjoy, and the pork-barrel and patronage politics pursued by national politicians who sit in the political headquarters in Tokyo. To run business, politics and administration in regional centres without close connections and face-to-face contacts with the national ministries and politicians is virtually impossible in Japan. As Nakamura (1996, p. 192) writes:

> The Tokyo concentration is also the product of the highly centralised system of government. Central bureaucracies have a great deal of power in both policymaking and program implementation. Their power, as often as not, extends to subnational governments and even private sectors. And, quite importantly, the national government controls the country from Tokyo. As a result, both local governments and private corporations are usually required to gear much of their operations to the activities of the central administration in the heart of metropolitan Tokyo.
All prefectural governments maintain their offices in Tokyo, and their officials very often spend taxpayers’ money on entertaining central bureaucrats (kankan settai) for the purposes of seeking information and to request approvals of projects and funds to their areas. Oita governor Hiramatsu mentions that governors spend roughly about two months each year in Tokyo visiting national ministries and government offices seeking subsidies for their prefectures and for information vital to prefectural administration and economic development (Hiramatsu 1995, p. 40). Central control and the hidden influence of the national ministries inevitably bring far too many people and offices to Tokyo. It is therefore argued by many that deregulation and devolution of functions to the local level would have the effect of alleviating some of the problems associated with the overconcentration in Tokyo of national functions.

**Local finance**

Another key issue related to centralisation concerns the local financial system. Scholars have very often commented that Japan’s local governments possess only 30 per cent autonomy (sanwari jichi). This cliché derives from the fact that independent sources of local revenue are limited to nearly 30 per cent of the total local income. To such scholars, the glass is half empty. But there are others who have adopted the ‘glass is half full’ perspective. To these scholars, the limited amount of independent income is not a denial of local autonomy. They argue that Japan’s local governments as a whole are in charge of vast budgets, which makes them powerful and influential actors, and that in no other industrialised nations do local governments enjoy such financial status (Muramatsu 1994, p. 162).

Table 1 summarises the sources of local finance in 1995. Local finance can be divided into two broad categories: general revenue (ippan zaigen) and specific-purpose revenue (tokutei zaigen). General revenue comprises 50 per cent of all revenue — local taxes, the local transfer tax and the local allocation tax. Local governments are free to allocate these funds in areas they think fit. The national treasury disbursements, on the other hand, are provided as specific grants or subsidies for various local projects over which the national ministries have discretionary powers. Although this is denied in some quarters, many statistical analyses have demonstrated that politics plays a vital role in the allocation of subsidy monies to local governments (Kobayashi 1996). Loans and borrowing are raised for specific-purpose local programs, but local governments have very little control over raising loans, as they are subject to the approval of the Ministry of Home Affairs (MOHA).
As is evident from Table 1, the independent revenue of local governments far exceeds 30 per cent. No doubt limited local finance and dependence on central government certainly make local governments less autonomous, but to say that local autonomy in Japan is limited to 30 per cent is a gross oversimplification of a complex issue. This is, however, not to say that local governments do not deserve more autonomy insofar as their ability to raise taxes is concerned. They certainly do, and there are various constraints that place limitations on local governments which make them unable to deliver services that they think should rightfully be offered in accordance with the needs of their local residents. Public housing (Jain 1989), social welfare services (Morita 1996; Jinno et al. 1996) and environmental policy (Broadbent, forthcoming 1998) are some examples.

**Local public administration**

Another major issue concerning local government autonomy relates to the organisation of local public administration. A large number of national bureaucrats move down into local administration to serve in top local public service positions. As was also the case in the past, many of Japan’s current governors and mayors are former national bureaucrats, and a large number of prefectural vice-governors come from the central ministries. Prefectures generally
accept these national officials in the knowledge that their presence will enhance the prefecture’s ability to establish close contacts with the national government.

Not only do local governments accept central officials but governors and mayors are required to act as agents and perform a range of functions on behalf of the national government. Known as the agency-assigned functions (kikan inin jimu) and originally numbering only 128 in the 1947 Local Autonomy Law, according to a recent survey, 561 such functions are now performed by local chief executives on behalf of the national government (Yomiuri Shimbun, 7 January 1997). It is estimated that these functions constitute more than three-quarters of the total prefectural total workload and about half of the municipal workload (Sekai, June 1996, p. 46). Moreover, there are far too many national laws regulating local government affairs — and the number is increasing. According to one report, in the late 1940s there were about 3,600 such national laws, increasing to close to 6,000 by 1990 (Hosokawa 1993, p. 64). Additionally, the national government also imposes many other restrictions on local governments in matters of local public administration, including who can and who cannot be hired as local public employees.

**Recent debate**

As mentioned before, in the past the push for local autonomy came principally from progressive local governments and their high-profile chief executives, such as Governor Minobe Ryokichi of Tokyo and Mayor Asukata Ichio of Yokohama City in the 1960s and 1970s. Local residents and citizen groups stood firmly behind these chief executives. Some scholars also argued in favour of decentralisation and removal of central control (Ide 1972). However, very few other interest groups added their voice to this demand. Although some national politicians were clearly in favour of making municipal governments more responsible to deal with the depopulation of rural areas, at that time there was strong agreement about the developmental state model under which the central government was regarded as the most legitimate organisation for establishing developmental strategies nationally, as well as at the regional level. However, due to huge budget deficits in the late 1970s, demand for administrative reform gained momentum within the government party. Decentralisation in its broadest sense was included on the reform agenda at the time of the Second Provisional Administrative Reform Committee, established in 1981. Further, the Fourth National Comprehensive Development Plan in 1987 advocated in favour of decentralisation away from
the Tokyo area. However, there was no clear implementation plan for decentralisation, nor did a strong political will prevail.

In the 1990s, however, the renewed call for political and administrative reform in Japan has served as a major catalyst to the debate on local autonomy and decentralisation. Politicians like Ozawa Ichiro, Hosokawa Morihiro (former governor of Kumamoto prefecture and later Prime Minister), Governor Hiramatsu of Oita (a former MITI official), Omae Ken’ichi (a management guru, business consultant and a candidate for the Tokyo gubernatorial position in 1995), Tomino Kiichiro (former mayor of Zushi), and a host of other politicians have written extensively on the subject of local autonomy. All have argued that it is vital for the nation’s progress towards deregulation, as well as economic and administrative efficiencies and internationalisation, that local governments are given true autonomy (Hiramatsu 1995; Hosokawa 1993; Omae 1989; Ozawa 1993; Tomino 1994).

Most of these advocates see the need for reducing the overconcentration on Tokyo, or what Ozawa in his book calls ‘freedom from Tokyo’ (1993, pp. 159–70). Ozawa suggests various ways and means to deal with this but agrees that the issue cannot be handled in isolation and needs to be regarded as ‘just one part of a larger, more thorough reform’ (Ozawa, 1993, p. 170). Hosokawa echoed similar concerns in 1993, p. 38).

No other politician in recent times has written as enthusiastically in support of local autonomy and against the continuation of ‘excessive regulation of local affairs’ in Japan as Ozawa, a former LDP heavyweight who currently serves as the leader of the largest opposition party — the New Frontier Party, or Shinshinto. In his influential book, Ozawa provides details on what he calls ‘new decentralization’. He is most clearly in favour of increased autonomy for local governments, and writes further that ‘local governments must henceforth take the lead while the central government provides the backup. The centre must cease issuing directives for the local governments to obey’ (Ozawa 1993, p. 77). According to Ozawa, under a decentralised system, policies will be formulated at the local level, while the central government will coordinate and adjust policies in such a way that regional autonomy is not infringed.

Ozawa is also in favour of substantial transfer of national authority and finances to local governments, although he recognises the need for the national government to perform the task of financial coordination. He takes the view that if localities were left to rely solely on their own local financial resources, there could be a danger of large income gaps between localities (Ozawa 1993, pp. 88–9).
As part of the larger bureaucratic reform agenda, Ozawa supports local administrative autonomy. His view is that the vertical administrative system under which the national ministries control local governments in various ways should be reformed ‘so that the various regions can rely on their own wisdom to carry out regional administration’ (1993, p. 164). According to him, ‘decentralization and reorganization of the central bureaucracies are part of a single set of changes, the two sides of administrative reform’ (1993, p. 89).

To achieve all these, Ozawa suggests establishing a new ‘Law on the Fundamental Principles of Local Government’ (1993, p. 77), which should aim at reducing many of the domestic tasks performed by the national government and limit central interference in local affairs. He recommends that the current system of ‘assigned functions’, which requires local chief executives to undertake functions on behalf of the national government, be abolished (1993, p. 79).

One major issue of the decentralisation debate has been the nature of the current structure of the local government system. Many commentators believe that the present structure may not be able to cope with the devolved functions. In its present form, Japan’s local government has a two-tiered system: 47 prefectures (to, do, fu, ken) and more than 3,000 municipal governments (shi, cho, son). They naturally vary in size—physical and population—and financial resources, as well as in their scope of functions. Some prefectures like Tokyo and Kanagawa raise more than 50 per cent of their finances through local taxes, while others like Kochi are unable to raise even 10 per cent in local taxes. The capacity to raise independent income of some smaller municipalities could be much weaker than the weakest prefectures.

In order that local governments are able to raise a decent amount of independent revenue, Ozawa favours a single-tier system which could be produced by amalgamating the present city-town-village system into roughly 300 self-governing units, to be tentatively called municipalities. These, of course, would vary to a certain degree in size and population, but each would have enough administrative and financial resources to manage its own affairs. Hosokawa, on the other hand, does not favour amalgamation or administrative restructuring of local bodies. He writes: ‘Japan would benefit little from any further consolidation, and a reduction in the number of municipality heads and local assembly members would be met with considerable resistance … if consolidation is feasible, then it should be proposed independently from below by the respective municipalities’ (Hosokawa 1993, p. 14).
Others have proposed different models. The business community (zaikai) — in particular, the Japan Chamber of Commerce and Industry — has supported the idea of a do-shu-sei system, under which Japan would be divided into eight to ten states which would have more power and larger functions to perform than the current prefectures do. Such a system would remove the barrier faced by the current structure of local government in Japan and would allow administrative efficiency. Business consultant Ken’ichi Omae is broadly in favour of this new state model. In the new emerging borderless state system, city and prefectural walls would have no relevance for global economic activities, according to Omae. On the other hand, there are others — like Oita governor Hiramatsu, former governor of Shimane, Tsunematsu Seiji; and governor of Okayama, Nagano Shiro — who favour a federalist model, along the lines of that in the United States.

As briefly mentioned above, the local business community in Japan is also now providing fuel to the agenda of decentralisation. Local chambers of commerce and industry and other regional business groups like Kankeiren in Kansai have been at the forefront of the decentralisation debate and regard decentralisation as essential in the new era of globalisation. They have been firmly behind their local governments in support of infrastructure developments such as new airports, international transportation facilities, conferences and event facilities in their regional areas.

Progress on decentralisation and reform

Since 1962, four National Comprehensive Development plans have been put in place with the aim of promoting decentralisation of economic activities away from large metropolitan areas into regional centres. To that end, the National Diet passed dozens of acts, such as the New Industrial City Construction Promotion Act of 1962, the Industrial Relocation Promotion Act of 1972, the High Technology Industry Integrated Regional Development Promotion Act (Technopolis Act) of 1983, and the Comprehensive Resort Establishment Act of 1987. In addition, several regional revitalisation programs were announced in the late 1980s. These have no doubt led to increased economic activities in regional areas, but overall the phenomenon of depopulation in rural areas and overconcentration on Tokyo could not be reversed. Even major urban centres such as Osaka and Kobe in the Kansai region have suffered economic reverses because of unipolar developments in Tokyo, as many large Japanese and multinational corporations moved their headquarters from the Kansai area to Tokyo. In view of this, many regional centres — including Sapporo, Sendai, Nagoya, Hiroshima and Fukuoka
— have been formulating strategies to revive their economies by providing facilities to attract international business activities to their areas.

Some experiments to revitalise smaller localities were undertaken by introducing the Local Community Revitalisation Program in the late 1980s, under which the national government provided 100 million yen to each municipal government with no strings attached; local governments were free to spend that money on local projects. A ‘pilot local autonomy’ project which began in the early 1990s gave a selected number of municipalities the right to conduct their affairs with little central interference. However, most of these programs have been introduced on an *ad hoc* basis and have no long-term plan.

After several recommendations by a range of government committees in the late 1980s and early 1990s, in June 1992 the government finally gave its approval to move the political and administrative capital from Tokyo to a nearby area. To this end, a law was passed in December of the same year. Under this law, in April 1993, the Prime Minister’s Office established an Investigation Committee for the Relocation of the Capital with Uno Osamu of the Kansai Economic Federation as its chair. The committee submitted its report to Prime Minister Murayama in December 1995 with the recommendation that a new site be selected within two years and that construction start before the end of this century so that the first session of the National Diet could take place in 2010.

Two other new initiatives were taken in 1994 when changes to the Local Autonomy Law were introduced to establish a core city system under which a city could be so designated if its population exceeded 300,000, if it had an area of 100 or more square kilometres, and if its daytime population exceeded its night-time population. This was announced to encourage smaller municipalities to amalgamate and to form larger units. There were twelve such core cities in 1996. These cities have been given enlarged functions in areas such as health and welfare, city planning and pollution control. The other initiative is known as the Regional Affairs Union system. Under this, several municipalities join to form a union which will be responsible for dealing with issues of common interest. Joint public facilities such as cultural centres and waste disposal management are examples of such joint efforts. Currently, only one Regional Affairs Union has been formed, in Oita prefecture (*CLAIR* July 1996)

The most important development in relation to the promotion of local autonomy took place in June 1993 when a joint resolution on decentralisation was passed by both the Lower and Upper Houses of the National Diet. This parliamentary resolution was supported by all political parties from the Conservative to the Communist parties. This is the first time since
the Meiji period that a joint initiative has been taken by national politicians in favour of promoting decentralisation and dealing with the problem of overconcentration in Tokyo (Matsushita 1996, p. 220). Following this, in May 1995, a law for the promotion of decentralisation (ちほぶんけんすいしんほう, or Committee for the Promotion of Decentralisation) was passed, with a validity period of five years. The law itself does not set out details on local autonomy, nor does it make specific proposals for decentralisation. Under this law, a committee (ちほぶんけんすいしんいんかい) of seven members has been established with a brief to suggest ways and means for making local governments less dependent on the central government. At the end of March 1996, the committee presented an interim report and suggested a number of possible changes, including a clear demarcation of powers and responsibilities between the two levels of government, and the abolition of agency-assigned functions. It recommended the establishment of new rules based on consultation and coordinated relations between the national and local governments.

**Resistance to reform**

As with any proposed reform, it is natural that groups which are likely to lose their power and influence as a result of the reform process will try to maintain the status quo and not allow the forces of reform to succeed. With regard to decentralisation and local autonomy, at least two key groups in Japan are clearly opposed to the idea of a fundamental change to the current system. The national bureaucracy in general and some Japanese politicians are against the idea of reform as proposed by Ozawa and other like-minded politicians, as recommended in the interim report by the committee on decentralisation (Tajima 1996). Bureaucrats from ministries such as Health and Welfare, Agriculture, Forestry and Fisheries, Education and Construction are particularly against the idea of removing central control in their areas of jurisdiction and making local governments independently responsible for services they have been delivering on behalf of the national ministries. Their argument, of course, rests on the view that local governments are too weak to deliver these services effectively and equitably on their own, but the main reason for their opposition is that these ministries clearly see a potential decline in their authority and influence if decentralisation in the true sense is introduced. It is well known that these ministries hold considerable leverage over local governments through their control of subsidies, as well as through their strict regulatory
power in terms of agricultural land usage, river management, city planning, nursing home management, regulations on transport facilities and so forth.

Various recommendations have been made with the suggestion that local governments be allowed to raise more revenue independently, but the national ministries have resisted such proposals on the ground that the gap in financial status between poor and rich local governments would widen (Jinno 1997). MOHA is the only ministry which essentially supports the idea of decentralisation and which has encouraged local governments to undertake new functions such as those in the area of internationalisation. But there is a catch here too: MOHA is happy to see other ministries lose control of local governments, but it is strongly defensive of its own control over local governments and would not like to lose its tight grip on local finances. It should be pointed out that MOHA is responsible for allocating a certain percentage of national taxes to local governments by way of an equalising grant, the Local Allocation Tax. MOHA is also the key organisation with the ultimate power of deciding whether local governments should be allowed to raise additional funds through loans. MOHA, of course, claims that it is interested in maintaining a sound fiscal program and that its aim is to ensure that no local government goes bankrupt in Japan, but it is also known that MOHA has used this power as political leverage and made the life of some local chief executives miserable in the past by not allowing them to raise additional funds for services these chief executives considered essential for their localities (Jain 1989). One commentator has said of MOHA that it is ‘perhaps the most liberal, understanding and supportive agency for local governments, [and] is also the most strictly institutionalised for central control over them’ (Akizuki 1995, p. 365). According to Akizuki, for MOHA the idea that local governments can do with less central intervention is ‘premature because local governments in Japan are still very weak, desperately seeking protection and guidance’ (Akizuki 1995, p. 365). Given the entrenched interests of the national ministries, it is unlikely that bureaucrats will easily accede to the aspirations of local governments for greater autonomy or let the central government pass a law which would drastically reduce the powers of the national bureaucrats.

The second group of opponents consists of those zoku politicians, especially within the LDP, who represent a special interest group such as construction, agriculture and education. Such politicians do not favour the idea of decentralisation as advocated by Ozawa and other reformist politicians (Tajima 1996). They derive their political strength in their electoral districts from the influence they have in the national ministries, and from subsidies they can
bring from the national government to local areas. If local governments were to be responsible
for these services independently, much of the zoku politicians’ political clout in the local
community would vanish.

Bureaucratic and political interests are so entrenched that there is very little support for
translating visions and ideas into actual practice. Proposals to move Japan’s political and
administrative capital to a nearby regional area have been slow to take off. There are simply
far too many competing interests involved. In principle, most favour such a proposal, but, in
practice, resistance is so strong that it took roughly a decade to move some of the government
offices and research centres to nearby cities on Tokyo’s outskirts. In view of this, the Chair
of the Committee for the Relocation of the Capital, Osamu Uno, has expressed doubts about
the implementation of the committee’s recommendation. He is of the view that unless Japan
has a strong leader, the relocation of Japan’s capital will not be realised at all (Uno 1996, p.
29). As Dewit (1996) has it:

[D]ecentralisation gets paid a lot of lip service, but has some deeply embedded
opposition to overcome. Few individuals and institutions have trouble supporting
the goal in principle; however, when the discussion gets down to specifics, the major
actors all start pointing their fingers at others’ powers rather than suggest that some
of their own jurisdiction might legitimately be conceded in the interests of a larger
social goods.

**Voter dissatisfaction and local initiatives**

While these debates continue and the national government drags its feet on reform, voters and
local communities are sending loud, clear signals of dissatisfaction over the (non-)perform-
ance of their bureaucrats and politicians. The success of two non-party, non-bureaucratic
candidates at the 1995 gubernatorial elections in Tokyo and Osaka indicates the level of voter
frustration with the mainstream parties and their politicians. At various other local elections,
voters have registered their disapproval of the established parties by choosing to elect their
chief executives supported by the Japan Communist Party (JCP). In an election held on 7 July
1996, voters in Komae city in Tokyo voted in a JCP mayor. Clearly, voters in Komae were
not in favour of a JCP chief executive, but they were voting against the established parties.
As political scientist Shiratori Rei commented, ‘voters wanted to tell the LDP and the SDP that they were not listening to voters’ wishes’ (Sato 1996, p. 4).

As in the past, residents of many localities have spoken against national plans and developmental activities such as those in Zushi in Kanagawa prefecture (Tomino 1994; Jain and Mizukami 1996, pp. 3–32) and in Maki in Niigata prefecture. In Maki, residents resorted to a referendum to reject the national government’s plan to build a nuclear power plant in the town.

Also, some local leaders actively continue to seek the promotion of local autonomy and to campaign against central control. These chief executives do not hesitate to formulate innovative policies that favour local residents and the needs of the time. If the national government opposes such innovations, local governments stand up to national pressure and resistance. The city of Kawasaki, for example, under the leadership of its mayor, Takahashi Kiyoshi, has been at the forefront of the movement to scrap the nationality provision and to open up local public service positions to non-Japanese. The city decided in May 1996 to allow foreigners to apply for most civil service positions to non-Japanese. The city decided in May 1996 to allow foreigners to apply for most civil service posts. Kawasaki became the first of the twelve designated cities to open its civil service positions to non-Japanese. Kochi prefecture governor Hashimoto Daijiro has advocated that nationality restrictions be scrapped altogether. The idea of hiring non-nationals to local public service positions is spreading to other prefectures and cities. MOHA was initially against this idea and took a tough stance but, realising its popularity with other chief executives, has now softened its views on this issue. More proposals to meet the challenges of globalisation are being made by local governments. In October 1996 the Tokyo metropolitan government proposed that permanent residents be allowed to vote in local elections. More than 250,000 foreign residents from 170 countries live in Japan; of these, more than 70,000 have permanent residence status.

Local governments have been particularly active in the promotion of internationalisation at the grassroots level through a large number of multi-purpose sister-city and state relations, in educational programs such as Japan Exchange and Teaching (JET), by providing a range of facilities to foreign residents in their localities, and by offering economic as well technical aid to the international community—the local version of Japan’s Official Development Assistance (Jain and Mizukami 1996, pp. 61–96).

In recent years, local government’s image has received a severe blow with the discovery of the practice of kankan settai (local officials lavishly entertaining national bureaucrats), kara shutcho (travel claims made by local officials for trips never actually made) and arrests of local
politicians for receiving bribes. What is important to note is that local governments have made efforts to deal with these corrupt practices and have favoured information disclosure rules, encouraging citizens to question local government behaviour. An ombudsman system has been introduced for citizens wishing to lodge complaints against their local government. To begin with, specific sector ombudsman offices — such as the welfare ombudsman in Nakano Ward in Tokyo and the administration ombudsman in Okinawa — were established in the early to mid-1990s. Following this, generalised ombudsman offices have been established in some cities such as Kawasaki (Jurisuto 1995, pp. 99–109). Several complaints have been registered in these offices, but as far as the effectiveness of this system is concerned, these are still early days. What is important to note here, though, is that local governments do not hesitate to experiment with institutions that they think might improve their administration and deliver better services to their residents.

**Summary and prospects for reform**

Central control and planning from the top were justified in the 1950s and 1960s when Japan’s principal aim was to catch up to the West in terms of its economic status. The national government and its ministries assumed the task of an overseer whose role it was to make sure that a minimum level of services were offered to all local residents and that no locality faced extreme poverty or that others were able to generate disproportionately high incomes from local sources. This was achievable partly through central control over the transfer of national taxes to local governments, land management and city planning. It is true that national income distribution and standards of services across the nation have achieved a level of equity that is hard to find in many other industrialised nations. At the same time, this has produced problems. Nationwide standardisation of various services and city planning has meant that the particular needs of localities received low priority, and that the country lost most of its historical diversity, richness of local cultures and local products. Since the approval of national ministries is required for decisions ranging from the exact location of bus stops in a regional city, the opening of a new bank branch in a local area, or to the opening of just a small dry cleaner’s shop (Nakamura 1996), most cities in Japan therefore look similar, and local variations are hardly ever found. Ozawa writes that ‘every park in the country has the same plaza, the same swings, seesaws, and jungle gyms. Town planning was like cutting cookies: they came from the same mold’ (Ozawa 1996, p. 77).
It is now argued that in this era of globalisation, such national control is absolutely unwarranted and localities should be given more independent authority to address local issues in a way more suitable to their residents. A major breakthrough has been made towards decentralisation, as seen in the historic joint resolution of the national Diet and the formation of a committee to present a report to the prime minister. Local government organisations such as governor and mayoral associations as well as national parties, have brought forward their own proposals. The decision by the national government to put the issue of decentralisation on its own agenda represents a clear departure from the past, when only progressive local governments and a handful of scholars pushed the idea of local autonomy and the national government only selectively reacted to those demands.

It is also the case, however, that, despite the promotion of reform at the local level by high-profile politicians, forces of resistance have been strong, and in reality, very little change has been achieved. This is partly due to the fact that political reform at the centre is in limbo; the will to take bold decisions is lacking as politicians are not sure where their interests lie. Without political and economic reform at the central level, the prospects are dim for fundamental reform in such areas as local finance. Reform at the local level, when it does come, is unlikely to come in a ‘big bang’ fashion; rather, it will do so in an incremental manner. Meanwhile, local communities and their leaders will continue to push for reform. Already active in a range of policy areas, they will without any doubt continue to keep the agenda of decentralisation on the front burner.

Notes

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1 The term local self-government is referred to in the title of Chapter VIII of the Constitution. Article 92 of the Constitution enshrines the principle of local autonomy.

2 For detailed discussions of both traditions, see Jain (1989, Chs 1 and 2).

3 In 1995, of 47 prefectural governors, 25 were former bureaucrats. Many high-ranking national officials who wish to be elected as governors choose to serve first as vice-governors in their targeted prefecture so that they are able to establish the necessary political network in the prefecture in preparation for an election.
In 1980 the Ohira administration proposed a ‘garden city state’ concept, which recommended that excessive centralisation should be corrected and proposed to create 200–300 rural communities which would be responsible for the administration of local communities.

Hiramatsu’s recent book is titled *The United States of Japan* (Hiramatsu 1995).

Various business association publications make this point clear. See, for example, issues of *Japan Close Up* and *Shikiho* published by Kankeiren (the Kansai Economic Federation).

Details of the report are available in *Jurisuto* (1996, pp. 60–72).

There are a huge number of ethnic Korean residents in Japan, who, although born and educated in Japan, are denied Japanese citizenship.

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The Organised Consumer Movement in a New Political Environment

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6. THE ORGANISED CONSUMER MOVEMENT IN A NEW POLITICAL ENVIRONMENT

Since the end of the LDP dominance of Japanese politics in July 1993, many questions have been raised about the impact of the collapse of the conservative regime and about the major changes that the regime has been going through. There have also been discussions about changes in relationships within the conservative coalition. However, it was not only the conservative regime that collapsed in 1993; the opposition under the conservative regime was dealt an even more serious blow. The end of the 1955 system refers to both the end of LDP rule and of the Socialist-led anti-government protest network. It was by no means a major force in politics in those years but its protest activities contributed to the flexibility of the conservative regime by making the LDP government mindful of public reactions to its decisions. Protest organisations were always there to promote anti-LDP government public opinion; when the window of opportunity was opened by internal conflict within the conservative coalition, they even made significant inputs into policy-making by allying themselves with elements of the ruling coalition.

It is therefore important to look at the impact of the collapse of the Socialist-led opposition network on the structure of interest representation in Japanese politics in the new era. This paper examines the postwar development of the organised consumer movement to see how the recent political changes affect the representation of consumer interests. Consumer interests were not actively promoted under the LDP conservative regime. Under the old election system, consumers were less influential than agricultural producers in electoral politics. They were less significant in interest group politics than producer organisations because they lacked organisation and resources and they were a marginal element in the government’s pursuit of export-oriented economic growth policy. In such a political environment, consumers in general remained second-class citizens whose interests were subjugated to those of producers.

The organised consumer movement represented an activist section of general consumers in Japan. It was concerned with general consumer interests but actively promoted only particular issues chosen out of considerations of the resources and opportunities of the movement. With limited opportunities provided by the LDP conservative regime, the organised consumer movement developed close links with the Socialist-led opposition network, reinforcing its anti-government protest element. It also developed contacts, when
possible, with government institutions for consumer protection, cooperating on some issues, and playing the role of professional consumer advocate. The movement established its issue priority and repertory of activities in response to specific developments in the political environment. Now it faces the consequences of such dramatic environmental changes as the end of the LDP conservative regime and the disintegration of the Socialist-led opposition network. This paper first analyses the structure, ideology and strategic emphases of the organised consumer movement during the LDP reign and then discusses whether the movement will represent consumer interests effectively in a new political environment.

The consumer movement as part of the opposition network

According to the Economic Planning Agency’s (EPA) report, there are 4,621 organisations categorised as ‘consumer organisations’, 30 of which organise activities at the national level and the rest at prefectural and local levels. The majority of national consumer organisations define their main activities as consumer education and research, while some engage in commercial activities. They are mostly concerned with issues such as environment, food safety and the care of senior citizens (EPA 1996, pp. 121–2). This report portrays Japanese consumer movements as citizens’ voluntary activities to educate consumers on issues directly concerning people’s everyday life. As the report’s multiple choice survey does not include questions about the political activities of consumer organisations, such a description may be too simplistic.

The study of Japanese pressure groups in the 1980s by Muramatsu et al. (1986), on the other hand, focuses on the political activities of consumer organisations and shows that consumer organisations engage in lobbying activities targeting government ministries and political parties. Although their contact with the LDP, the ruling party at the time, and government ministries was limited and their influence weak compared with other pressure groups in the survey, consumer organisations nevertheless engaged in lobbying activities to influence policy. They were more active in blocking moves that would run counter to general consumer interests and considered themselves successful in such areas as regulation of defective products, promotion of food safety and opposition to price increases (Muramatsu et al. 1986, chs 4 and 5). Because their demands often conflicted with LDP government policies, they had closer contact with opposition parties, making them part of the opposition network.
One of the consumer organisations regarded as an important peak organisation by the media and included in the Muramatsu survey is the National Liaison Office of Consumer Organisations (Zenkoku Shohisha Dantai Renrakukai: Shodanren). It is an umbrella organisation of many national consumer organisations and sponsors an annual ‘National Consumer Conference’ (Zenkoku Shohisha Taikai), which discusses the goals and priority issues of the national consumer movement. A wide range of consumer movements are represented in the organisation, which makes it a good case study of the organised consumer movement in Japan.

Protecting consumers from price increases

According to the National Liaison Office, the organised consumer movement was historically part of the opposition network (Shodanren 1987, p. 7). It participated actively in the National Progressive Movement (Kakushin Kokumin Undo) led by the Japan Socialist Party (now known as the Social Democratic Party of Japan), the Japan Communist Party and labour unions in the 1950s; it endorsed the four slogans of the movement: ‘peace’ and ‘independence’ (or neutrality) against the military alliance with the United States; ‘protection of democracy’ (especially the postwar Constitution) from moves to revise it; and ‘protection of people’s lives’ from the power of monopoly capital. Protection of democracy and people’s lives (seikatsu yogo) were particularly emphasised by consumer organisations, which saw threatening trends in corporate moves towards recentralisation and cartelisation, and subsequent price increases. Labour unions, cooperative organisations, welfare activists and women’s (housewives’) organisations protested at the local level against cartelisation.

The National Liaison Office of Consumer Organisations (Shodanren) was formed in 1956 with the active participation of 11 organisations protesting against the LDP government’s policy of relaxing anti-monopoly regulations. These organisations were particularly concerned with the effects of this relaxation on bulk purchases (kyodo konyu) organised by consumer cooperatives and labour unions to provide goods more cheaply than private retail stores. One of the relaxation measures was to allow small enterprises to form price and/or distribution cartels and force others to comply. The formation of a cooperative link between the 11 organisations was initiated by the Association of Japan Cooperative Unions (Nihon Seikatsu Kyodo Kumiai Rengokai: Seikyo), whose group purchase activities were particularly targeted for stricter regulation by such cartelisation. Over the following three years,
Shodanren lobbied politicians and central ministry officials to prevent the passage of three bills that were designed to protect small and medium-size enterprises from competition. Although their lobbying, which was carried out as part of the National Progressive Movement against the conservative policies of the LDP government, delayed the legislation process, the bills were all passed by April 1959.

Shodanren focused on the cartelisation issue in the 1950s not only because it was in Seikyo’s interest but also because it considered that such practices would lead to price increases which would affect people’s lives directly. The issue of price increases has indeed been the most consistent theme of Shodanren’s activities since its formation. The first protest it organised against price increases targeted major newspaper companies that raised subscription fees uniformly in 1959. It was followed in the 1960s by protests against fee increases by government regulated organisations (kokyo ryokin) such as utilities (electricity and gas), public transport (railways and buses) and postal and telephone services. Shodanren pursued this issue to protect consumers from inflation; to influence the government’s price policy; to demand more democratic and open access to government decision-making; and to demand public disclosure of corporate information regarding fee rises (Shodanren 1987, pp. 81–2). It organised petitions and rallies as well as meetings with corporate representatives, local government officials and such central ministry officials as the Director-General of the Economic Planning Agency.

In the 1970s price increases became even more important for the consumer movement in the context of inflation and skyrocketing commodity prices (kyoran bukka). Public criticism was directed at trading companies and petroleum importers that reaped benefits from the crises caused by Watergate in 1971 and the 1973 oil shock. The trading companies were criticised for hoarding imported raw materials, thereby causing price increases and shortages of household commodities, and the petroleum importers for illegal price-fixing. Shodanren perceived this as victimisation of consumers by big business and demanded immediate price reductions. It negotiated emergency measures for household necessities with central ministry officials and local governments. Protests were also organised against TV manufacturers (to reduce the price of colour TV sets) and cosmetic companies (to abolish a fixed re-sale price system). Some local Seikyo organisations, which were engaged in group purchase of kerosene, petitioned the Fair Trade Practice Commission to investigate the petroleum industry; later they filed a lawsuit against the petroleum importers to demand compensation for damages (higher prices) imposed on consumers.
The practice of price-fixing highlighted by the kerosene shortage made the organised consumer movement more sensitive to the movement of commodity prices and reaffirmed the importance of the issue for the movement in promoting consumer interests. It also reinforced its scepticism about market forces. Shodanren-affiliated consumer organisations shared a generally leftist orientation and were of the view that, left to market forces, corporations would raise prices to increase their profit margins. They were convinced that stricter regulations were necessary to protect consumers. In 1974, the 13th National Consumer Conference adopted a resolution demanding reform of the Anti-Monopoly Law.

Prime Minister Takeo Miki, aware of strongly critical public opinion towards the LDP after the revelation of the Tanaka Lockheed scandal, pledged anti-monopoly reform together with reform of election campaign and political funding regulations. Shodanren, in cooperation with individual consumer organisations, organised study sessions and rallies, and also drafted its own reform plans, aided by scholars and legal experts. Some of these drafts were incorporated into the final bill as a result of the opposition parties’ efforts. The reform was approved by the Diet in May 1976.

Shodanren started a new campaign for reduced charges for electricity and gas in 1977. Opposition to fee increases was usually based on such arguments as the lack of corporate effort and the undemocratic process involved in government approval of the utilities’ proposals. The argument was different this time. Shodanren maintained that the exchange rate in the previous few years favoured a strong yen, which should make the cost of importing fuels cheaper, and that the difference caused by a strong yen (endaka saeki) should be returned to consumers. This was probably the first time that the consumer movement had used the impact of international trade on domestic prices as a basis of a claim for price reductions. Similar claims were made for the price of imported goods. The campaign for ‘benefits from a strong yen’ (endaka saeki kangen) continued into the 1980s, with utility fees as the main target.

When the government started discussions about a new consumption tax in 1978, the consumer movement quickly organised a campaign against it as it considered the new tax to be an additional burden on consumers, and special tax-filing measures for small and medium-size businesses as ‘another authorisation by the government of tax privileges for business’ (Kato 1994, p. 109). Although the new tax was eventually introduced in 1989, it was such a controversial issue that it divided the LDP and contributed to an unusually strong result for the Social Democratic Party of Japan (SDPJ) in the 1989 House of Councillors’ election. Since
its introduction, the tax and other tax reform debates have been carefully observed by the consumer movement, and the National Consumer Conferences held in the 1990s consistently discussed the issue as the movement’s priority target. Most recently, Shodanren has campaigned against the proposed increase in the consumption tax rate from 3 per cent to 5 per cent, along with other government tax reform proposals.

Shodanren’s interests were not confined to price increases. The 1995 National Consumer Conference, for example, discussed the environment, food safety, medical malpractice and freedom of information. The organisation, however, regarded ‘prices’ as the most important aspect of consumer interests as price increases affect the economic well-being of general consumers most directly and uniformly (Interview with Yoshiyasu Ota, Secretary-General of Keidanren, 31 May 1996). It could also have been the outcome of a compromise among different member organisations, which included not only independent consumer organisations but also women’s branches of labour unions and agricultural cooperatives. As a result of Shodanren’s focus on price, the Japanese organised consumer movement has acted like a single-issue movement throughout the postwar years.

A new agent of consumer protection

In the 1970s consumers’ lives were threatened not only by ever-increasing prices but also by defective products, unsafe foods and unscrupulous enterprises. In response to increasing cases of consumer injuries and damages caused by unsafe products and dishonest entrepreneurs, the LDP government established an administrative service for consumer protection under the 1968 Basic Law for Consumer Protection (Shohisha Hogo Kihonho). The Social Policy Council (Kokumin Seikatsu Shingikai) was created and placed under the Economic Planning Agency. The Agency’s Bureau for National Lifestyle (Kokumin Seikatsu Kyoku) supervised consumer affairs, and the Centre for National Lifestyle (Kokumin Seikatsu Senta), a special public corporation attached to the EPA, conducted product testing, consumer education and monitoring with cooperation from prefectural and municipal centres for consumers (shohi seikatsu senta). The government’s consumer protection services focused on prevention of consumer damages and promotion of adequate relief measures; promotion of fair practice in commercial transactions; and consumer education. Specifically, the government-led consumer protection system dealt with product safety, food safety, regulations over unscrupulous sales practices (door-to-door sales, negative options and so on) and the establishment of fair practice in the consumer finance and contract industry.
The organised consumer movement was also concerned about new problems, especially those affecting human health. Discoveries of diseases caused by industrial pollution and health risks posed by toxic medicine and food alerted the consumer movement to a new kind of threat to consumers, contamination of the environment and of food. As victims of such contamination had already organised themselves to demand remedial action from government and industry mostly through legal action, the consumer movement played a supporting role by sponsoring or cooperating in mass demonstrations and public education campaigns. It was involved in this sort of capacity (shien dantai) in campaigns regarding the ‘Big Four’ industrial pollution cases (Minamata disease, Niigata Minamata disease, Itai-Itai disease, and Yokkaichi asthma) and food contamination cases (Kanemi oil and Morinaga baby formula). Of the two issues of environmental and food contamination, the consumer movement was more concerned about food contamination or pollution (shokuhin kogai) than environmental pollution. This strong emphasis on the food contamination issue may be attributed to the more direct linkage between contamination and consumer health damage than environmental pollution; the more immediate threat posed by food contamination to the general population than geographically concentrated industrial pollution; and the influence on the movement of women, mothers and housewives, who constituted the majority of the organisational membership.

Cooperation with groups of food contamination victims led some Shodanren members to pursue the general issue of food safety as a priority. In 1970 a campaign against artificial sweeteners, especially one suspected of causing cancer, was organised by five consumer organisations including two Shodanren members. Other Shodanren organisations supported the campaign. It marked not only the beginning of the promotion of food safety issues by the organised consumer movement but also the emergence of a new movement for consumer protection with its origins in administrative services for consumers. One of the five organisations that organised a rally against artificial sweeteners was the Bunkyo Ward Consumer Group (Bunkyoku Shohisha no Kai). It was formed by local consumer monitors who were either employed or contracted by local and central governments to carry out consumer education and monitoring at the grass-roots level. As an increasing number of such groups was formed in Tokyo in the early 1970s, the Tokyo Liaison Office of Local Consumer Organisations (Tokyoto Chiiki Shohisha Dantai Renrakukai: Tochishoren) was formed to coordinate their activities.

Although these groups were based on the voluntary participation of local monitors outside their official capacity, the consumer protection issues they emphasised were those
that they dealt with in their official capacity. As noted above, administrative consumer protection services emphasised consumer safety and protection from unsafe products (including food) and unfair trade practices; voluntary groups of consumer monitors also concentrated on these issues and worked for better systems of prevention and compensation for consumer damages. The government and business, which became increasingly sensitive to public criticism after intensified pollution-related disputes in the late 1960s, cooperated with such groups to establish a community-based consultation system based on cooperation between government, industry and consumers. The Economic Planning Agency and the National Lifestyle Centre hosted a national conference for consumer groups of activist monitors in 1974, and business organisations campaigned for cooperation with them to prevent an escalation of consumer-related disputes. Local governments also reinforced consumer protection services by enacting consumer protection ordinances (*shohisha hogo jorei*).

The organised consumer movement watched the emergence of the new agency for consumer protection warily. Shodanren and its affiliated organisations maintained contact with activist monitors, cooperated with them particularly on issues of product and food safety, and welcomed their participation in annual meetings either in their official capacity or as grass-roots activists. Shodanren, however, was sceptical about their independence from governmental control. The organised consumer movement had always acted as a watchdog of LDP government policies that appeared to promote the interest of big business at the expense of consumer interests and concentrated on the issue of price increases as a case of neglected consumer interests. The LDP government and business were always considered to be the target of attack and never of alliance. In response to moves by government and business to create a consultative system for consumer protection, Shodanren in its National Consumer Conference Policy Statement stated that:

> Building consensus among business, administration and consumers should not be considered as the crux of the consumer movement and the consumer protection administration. The rights of consumers such as the right to consumer safety and obtaining necessary information regarding their lives must be established step by step by consumers’ own ceaseless efforts and organisational influence, and cannot be achieved by relying on corporate goodwill (Shodanren 1987, p. 59).
The organised consumer movement’s caution about government cooption and its emphasis on price-related issues made its relationship with activist monitors and their grass-roots activities a weak one. Shodanren itself admits that its relationship with various types of grass-roots consumer groups has been limited and that it has failed to mobilise their resources for the national consumer movement (Shodanren 1987, p. 28).

**Economic reform, consumer protection and the consumer movement**

In the 1980s Japan’s trade surplus became a serious problem in its relations with many trading partners, especially the United States. Japan was frequently criticised in international trade negotiations for its tight regulation of the market and the economy, making it difficult for foreign corporations to enter into and compete in Japanese domestic markets. International pressure, or foreign pressure (gaiatsu), was put on the LDP government to implement a wide range of market-opening measures. Japanese business organisations also supported such measures as they considered that government regulations were constraining their business activities. In 1983 the Federation of Economic Organisations (Keizai Dantai Rengokai: Keidanren) issued an opinion paper proposing modifications to 43 trade-related regulations (Keidanren 1987). In response to such internal and external pressure, the LDP government set up the First Provisional Council for the Promotion of Administrative Reform (Dai-1-ji Rinji Gyosei Kaikaku Suishin Shingikai) in 1983 to discuss reforms necessary to make Japanese markets more accessible and competitive. Various measures for deregulation were proposed by the council in the years that followed.

In the beginning, economic reform debates concerned measures to make the Japanese economy more internationally compatible (kokusai kyochogata) as a way to reduce Japan’s trade surplus. The initial debates focused on restructuring the Japanese economy into one more oriented towards the domestic market and the use of market mechanisms to increase domestic demand (General Management Agency 1995, pp. 29–34). Consumer movements were not actively involved in the initial stage of economic reform debates as policy-makers and consumer organisations paid little attention to the impact of such reforms on consumers. The only issue that activated consumer movements was the 1983 deregulation of food additives. Shodanren regarded the Ministry of Health and Welfare’s decision to authorise the use of 11 new food additives as another case of consumer neglect, which appeared to be increasing in the name of economic reform. It also viewed such deregulation as jeopardising
the Japanese agriculture and food industry by opening the way for more liberalised food imports (Shodanren 1987, pp. 69–70). The campaign against deregulation of food additives was carried out by Shodanren, agricultural producer organisations, labour unions and other civic groups that formed the Central Committee of the Campaign Against Deregulation of Food Additives *(Shokuhin Tenkabutsu Kisei Kanwa Hantai Chujo Jikko Iinkai)*. Although the campaign failed to reverse the Ministry of Health and Welfare’s decision, it impressed on government and industry the public’s strong sensitivity to food safety issues.

Shodanren’s opposition to the 1983 deregulation invited criticism from advocates of economic reform on the grounds that it was obstructing government efforts to fulfil the pledge of reducing Japan’s trade surplus by opening up the market. In the 1984 meeting of the International Organisation of Consumer Unions (IOCU), one of the Japanese representatives made a statement attacking Shodanren’s opposition to deregulation of agricultural markets as being unrepresentative of the majority opinion of Japanese consumers. A Shodanren representative responded that the organisation, while supporting the general goal of trade liberalisation, opposed the Japanese government’s withdrawal from consumer protection in food safety and hence relaxation of food safety standards; he also explained that Shodanren’s policy on agricultural markets emphasised the importance of agriculture in Japan’s efforts to regain self-sufficiency in food. Shodanren refused to endorse a statement made by the IOCU and European consumer organisations in support of the liberalisation of agricultural trade, especially the importation of food products, as benefitting developing countries and meeting consumer needs (Shodanren 1987, p. 174).

The only issue that the organised consumer movement was involved with in the early stages of the debates of economic reform, the 1983 deregulation of food additives, effectively revealed the conservative thinking of Japanese consumer organisations with regard to economic reform. It still functioned as a watchdog of LDP government policies, protesting any government moves to relax regulations, which were not tight enough in the opinion of many consumer organisations, and still sought to protect consumers from profit-seeking big business. It still acted as part of the opposition network, working with labour unions. It was conservative also in the sense that it gave special attention to Japanese agriculture in considering responses to the government’s economic reform program. This may be partly due to the presence of agricultural cooperative organisations within the movement; it could also derive from traditional values that emphasise self-sufficiency, especially in food, and place farming at the centre of Japanese economic, social and cultural life.
Consumer interests began to surface in the economic reform debates of the late 1980s. The LDP recognised the importance of consumer support for economic reform programs after experiencing strong public resistance to the introduction of a consumption tax and the loss of its majority in the 1989 House of Councillors’ election. The US government also emphasised the benefits of economic reforms for Japanese consumers in bilateral trade negotiations to reinforce their arguments for Japan’s market opening. Consequently, the Subcommittee on Government Regulation under the Second Provisional Council for the Promotion of Administrative Reform (Dai-2-ji Gyokakushin) proposed in its 1989 report that the next deregulation program should consider the consumer benefits of economic reforms more closely (shohisha jushi) and focus on such issues as price disparities between foreign and domestic markets and streamlining administrative procedures to meet consumer needs (Asahi Shimbun, 22 October 1989).

Consumers, or consumer interests, were emphasised even more by the Hosokawa government, the first coalition government to end the 38-year-long domination of government power by the LDP in 1993. Shinseito (Japan Renewal Party), the major force in the government, took the view that too much bureaucratic influence had stifled political initiatives in policy-making and that policy changes were necessary to meet the needs of a new political environment, both domestic and international. The party, along with Hosokawa’s Japan New Party, advocated extensive administrative reforms to free Japanese politics, economy and society from bureaucratic control and argued that such reforms would transform the producer-oriented policy-making structure under the LDP rule into a consumer-oriented one. The argument received enthusiastic support from Japan’s trading partners, especially the United States, which anticipated that such changes would have a positive impact on its trade imbalance. US President Clinton expressed his hopes for political change in Japan when he visited Tokyo for the G7 Summit in July 1993. He suggested ‘that political change in Japan would produce more “openness”, which would then lead to deregulation, lower prices for burdened consumers and eventually a slackening in the huge trade surplus that threatens Tokyo’s relations with the rest of the world’ (Desmond 1993). Similar arguments linking political change, consumer interest and improvement in Japan’s foreign economic relations appeared in major US newspapers (Blustein 1993; Sanger 1993).

The consumer movement was suspicious of the ‘consumer-benefits-of-economic-reforms’ argument simply because the argument was first put forward by government and business and then linked by Japan’s trading partners to their business opportunities in Japan.
It considered that they were merely trying to enhance their business opportunities without any regard for consumer interests. While the movement supported the general goal of economic reform and deregulation that would lead to increasing consumer choice and lower prices, it was cautious about any relaxation of safety standards. It focused particularly on the issue of food and product safety, criticising the government for hasty relaxation of safety standards in order to accommodate foreign governments’ demands for market opening in Japan. For example, the consumer movement opposed the Hosokawa government’s proposal to change the requirement for processed food products to be marked with the production date; under the proposed new regulation, products were to be marked only with a ‘use by’ date. The government’s proposal was made in response to the complaints of foreign producers that the requirement for the production date was effectively a non-tariff barrier as it allowed Japanese retailers to reject imported products on the basis of production date limits. Consumer organisations argued in council discussions that a ‘use by’ date would not be sufficient for consumers to evaluate food safety and that the production date should be displayed along with the ‘use by’ date. The requirement for a ‘use by’ date only was adopted by the government in 1994 to make Japanese regulations compatible with international ‘use by’ date requirements.

The resistance of the consumer movement to deregulation made consumer organisations a marginal participant in economic reform debates. Anecdotal evidence of general consumer support for deregulation such as the popularity of discount stores reinforced the impression that the organised consumer movement might have lost touch with consumer interests of the 1990s. Its opposition to the liberalisation of rice imports, for example, had little support from urban consumers. Its basic strategy of promoting consumer protection by tighter regulation over business activities, based on suspicion about market forces in general and Japanese big business in particular, was criticised by the media and economic reform proponents as providing excuses for regulatory ministries to resist deregulation. Shodanren admitted that it had not examined the impact of deregulation on consumers except in such areas as food and product safety and might have over-emphasised the negative implications of consumer safety (Asahi Shimbun, 7 September 1993; Interview with Yoshiyasu Ota, 31 May 1996).

The National Consumer Conference included deregulation in its discussion in the 1994 and 1995 meetings (National Consumer Conference Report, 1994; 1995). Discussions dealt with various issues using government reports as a guide to evaluate more comprehensively the impact of deregulation on consumer protection. While acknowledging the organised
consumer movement’s biased approach to the issue and general criticisms of the movement’s opposition to deregulation, the conference reports still cautioned against being persuaded by the ‘consumer-benefit-of-economic-reforms’ argument. The reports argued that government regulation was still necessary and should be strengthened in such areas as food safety standards and environmental protection and that some deregulation measures might work against the interests of small and-medium-size enterprises and union workers with whom the organised consumer movement cooperated closely. The consumer movement was also critical of a new policy emphasis on consumers’ ‘self-responsibility’ (*jiko sekinin*). Consumer organisations considered it necessary to provide more open access to corporate and government information for consumers to make responsible decisions. They therefore demanded the legislation of a freedom of information law as part of consumer protection measures (National Liaison Office of Consumer Organisations 1994, pp. 158–60; 1995, pp. 148–51).

The consumer movement in a new political environment

The organised consumer movement was not actively involved in the recent economic reform debate. In an interview, the Secretary-General of Shodanren admitted that members were still learning about deregulation and its impact on consumers. Its active involvement in reform-related debates was limited to food safety issues and its influence was marginal, as demonstrated in the cases of food additives and production date display for processed food products. The limited influence of Shodanren or the organised consumer movement, in economic reform debates does not necessarily mean that consumer interests have been neglected in the new political environment of the 1990s. On the contrary, the enactment of the Product Liability (PL) Law (*Seizobutsu Sekininho*) in 1994 was seen as a symbol of the (non-LDP) coalition government’s consumer-oriented policies. If the organised consumer movement coordinated by Shodanren remained marginal in government decision-making, who promoted the PL legislation? Was there a new consumer movement? Could it be a sign of the increasing influence of the consumer movement in the new political environment?

On 22 June 1994 the Product Liability bill passed the Diet. The bill was considered to be ‘one of his [Hosokawa’s] own most important legislative initiatives’, as the formal legislative process started during his government (Smith 1994). Hosokawa, however, could take credit only for accelerating the legislative process. Ministerial deliberation on the
legislation had started long before he became prime minister. The first recommendation regarding PL legislation was made by the Economic Planning Agency’s Social Policy Council in 1975.

As mentioned previously, consumer complaints against defective products increased in the 1970s and the government responded by setting up a system of consumer consultation. The consumer consultation service aimed at prevention of, and compensation for, specific damages to consumers caused by unsafe products; Seikatsu Sodanin, or various consumer monitors, received consumer complaints, arranged product testing if necessary, and advised on how to claim compensation if applicable. As the supervisor of government consumer protection services, the EPA was most directly exposed to such consumer complaints and started to advocate a PL bill. Its 1975 recommendation, however, met with strong resistance from industry and industry-related ministries. The LDP did not pay much attention to the idea. Even the organised consumer movement did not express any particular interest in the idea except as part of its general support for consumer protection from unsafe products, an item which had only recently been added to the movement’s agenda after pressure from some member organisations and grass-roots organisations of activist consumer monitors. With little support from other ministries, the ruling party, and even its most important constituent, the EPA could not do much for PL legislation.

From the late 1980s to the early 1990s there were several developments that pushed the PL issue onto the LDP government agenda. The first was an international trend, especially among European Community countries, for introducing or revising product liability systems in preparation for economic union. Second, the LDP government itself revised its economic reform programs to focus more on consumer interests in 1989. And, finally, there were a series of fire accidents caused by defective TV sets resulting in injuries and property damage in the early 1990s. These cases were concentrated in a short period of time, creating a sense of urgency in the public mind. At the same time as the international moves towards PL took place and the LDP policy change revived the Social Policy Council proposal, this series of accidents galvanised activist consumer monitor groups into action to demand greater consumer protection. In December 1990 the Social Policy Council started deliberations on PL legislation.

The organised consumer movement became involved in campaigns to promote PL legislation in May 1991, when consumer monitor groups, consumer organisations, lawyers and scholars formed a national organisation to promote the legislation by mobilising public
support and participating in council deliberations. Consumer monitors, who had heard of cases of injuries from defective products, were invited to council deliberations from the beginning, and representatives of the organised consumer movement were also included. They were both satisfied that it was not a case of token representation, as it had often been in the past (Interview with Yoshiyasu Ota, 31 May 1996). They had an unusually strong presence in the council, firstly because the EPA had been advocating the legislation for 20 years, and, seeing a realistic opportunity for legislation, welcomed support from consumer organisations to reinforce its position against other ministries; secondly, the EPA could not ignore consumer monitors as they worked for the consumer protection system that it supervised; and, thirdly, the SDPJ, in opposition, put pressure on the LDP government by drafting its own PL bill for parliamentary discussion, threatening to take the legislative initiative. The strong presence of consumer monitors made council deliberations more conflictual than usual, as they demanded stricter definitions of liability and confronted industries and industry-related ministries that opposed legislation. They even argued against the EPA, which was willing to compromise on specific provisions in order to guarantee successful passage of the legislation. The council consequently failed to produce a recommendation (toshin) by autumn 1992 as originally scheduled.

Public campaigns organised by the national organisation for PL legislation kept the issue alive in media and public debates, preventing the Social Policy Council from shelving the idea. However, the council’s recommendation, produced eventually in December 1993, was a disappointment to consumer groups, since it appeared to them to make it easy for producers to avoid responsibility (Nihon Keizai Shimbun, 11 December 1993). It was ironic that the Hosokawa government, emphasising consumer-oriented policy-making, drafted the government PL bill on the basis of a recommendation criticised strongly by consumer organisations. The SDPJ as the governing coalition apparently did not do much to make it more consumer friendly (Smith 1994). The government bill, drafted by MITI’s Industrial Structure Council (Sangyo Kozo Shingikai) with the participation of six other ministries — including the ministries of Agriculture, Forestry and Fishery; Transportation; Construction; Health and Welfare; Justice; and the EPA — was approved on 12 April 1994 at the final meeting of the Hosokawa Cabinet, and passed the Diet on 22 June, only three days before the second coalition government led by Tsutomu Hata resigned.

The major promoter of the PL Law was the EPA; it had been advocating the idea since the mid-1970s. Seizing the opportunity created by the government’s policy emphasis on
consumer benefits and the frequency of accidents involving defective products in the early 1990s, the EPA pushed for legislation and received support — first, from its own consumer monitors and their organisations, and then from the organised consumer movement that had worked with consumer monitor groups from time to time. PL legislation was declared as a central objective by the consumer movement only after the Social Policy Council’s deliberations had started, and public campaigns organised by consumer movement organisations effectively supported EPA efforts to keep the issue on the government agenda when government commitment was threatened by prolonged council deliberations and major political changes.

The organised consumer movement coordinated by Shodanren played an important, if supporting, role in the legislation of the PL Law. Cooperation with the EPA and consumer monitor organisations under EPA supervision provided bureaucratic access to national decision-making for the movement. This cooperation was issue-specific, however. After the PL legislation, the consumer movement went on to push for the legislation of the Freedom of Information law, as it considered provisions in the PL Law for access to manufacturers’ information inadequate. The EPA did not cooperate in this issue, and consumer monitors at the grass-roots level administration were not actively involved either.

**Conclusion**

The case of the PL legislation indicates that there may be two movements for consumer protection in Japan in the 1990s: one led by Shodanren and other civic consumer organisations scrutinising the actions of government and business for neglect of consumer interests, and the other organised by government consumer protection services focusing on prevention of, and compensation for, consumer damages. It also suggests that consumer interests may be promoted more effectively in government decision-making when the two movements cooperate. It was such cooperation that channelled grass-roots pressure for PL legislation into government decision-making and prevented the government from abandoning it. The emergence of grass-roots movements for consumer protection led by government consumer monitors has contributed to the opening up of bureaucratic access to national policy-making for the organised consumer movement. Together, the two movements have achieved a high profile for consumer interests.

The PL legislation case, however, is a qualified success for the organised consumer movement. This is so not only because the law’s specific provisions were far from...
satisfactory from the movement’s point of view but also because the case signalled the declining influence of the Socialist-led opposition network, of which the organised consumer movement was part. The SDPJ indeed had stronger parliamentary power in 1990 when the PL deliberations started than in 1993 when the drafting of the PL bill took place. This could partly explain why the party’s threat to take over the legislative initiative was effective in forcing the LDP government to start government deliberations on the bill and why the party was not influential in determining the content of the bill during the drafting. But the SDPJ was in opposition in 1990, while it was part of the governing coalition in 1993. Why did the party not try to make the draft government bill more acceptable to consumer organisations when it was in power? There may be several reasons. The SDPJ was not in control of the drafting. MITI, whose Industry Structure Council was responsible for drafting the bill, was under a Shinseito minister. The party might have considered cooperation with coalition partners and its responsibility as a governing party more important than advocating its constituents’ interests. Whatever the reasons, the SDPJ did less for the consumer movement in 1993, narrowing the political channels for the organised consumer movement’s access to national policy-making.

The organised consumer movement faces many challenges in the 1990s. Because of its primary interest in a single issue, price increases, the movement’s activities have been less relevant to other issues of consumer protection. Its involvement in the economic reform debate has been marginal because of its scepticism about the ‘consumer-benefit-of-economic-reforms’ argument. The SDPJ’s substantial loss of power in parliament has meant that the movement’s political access is largely blocked. Consequently, its leadership in consumer advocacy is being challenged, especially by a new movement closely associated with government consumer protection services. The organised consumer movement coordinated by Shodanren must overcome these limitations created by its own decisions made over the last 40 years if it is to continue as a consumer advocate in a new political environment.

Notes

1 Consumer organisations were categorised as ‘civic/political groups’ (shimin/seiji dantai). Other groups in the survey were: agricultural groups (nogyo dantai); welfare groups (fukushi dantai); economic groups (keizai dantai); labour groups (rodo
They included the Federation of Housewives’ Association (Shufu Rengokai); the Japan Association of Women’s Organisations (Nihon Fujin Dantai Rengokai); the Association of Japan Consumer Cooperative Unions (Nihon Seikatsu Kyodo Kumiai Rengokai); the General Council of Labour Unions (Sohyo); the Central Council of Labour Welfare (Chuo Rodosha Fukushi Taisaku Kyogikai); Lifestyle Group (Kurashi no Kai); the Research Institute of Women’s Issues (Fujin Mondai Kenkyukai); Women’s Democratic Club (Fujin Minshu Kurabu); the Association of School Cooperative Unions (Zenkoku Gakko Seikatsu Kyodo Kumiai Rengokai); and Tankyoren (Association of Coalminers’ Unions).

MITI also set up the Office of Consumer Consultation (Shohisha Sodanshitsu) under the Department of Consumer Economy’s (Shohi Keizaika) Bureau of Industrial Policy (Sangyo Seisakukyoku). It also manages a monitoring system assigning 715 trade and industrial policy monitors (tsusho sangyo seisaku monita) and another 715 consumer price monitors (shohisha kakaku monita) nationwide.

In Japan, mothers and housewives are traditionally responsible for matters concerning family health. Women members of the consumer movement may have paid more attention to the food contamination issue as victims of the two cases mentioned above included children and babies.

They were the Association of Japan Consumer Cooperatives (Seikyo) and the Federation of Housewives’ Association (Shufuren). The three organisations that were not affiliated with Shodanren were the League of Regional Women’s Organisations (Zenkoku Chiiki Fujin Rengo Kai: Chifuren); the Women Voters’ League (Fujin Yukensha Domei), and the Bunkyo Ward Consumer Group (Bunkyoku Shohisha no Kai).

Bunkyo ward is one of the 23 wards in the Tokyo metropolitan area.

The EPA first called it the ‘National Consumer Conference’ (Zenkoku Shohisha Taikai), the same name as the Shodanren-sponsored annual meeting but changed it in response to protests from Shodanren.

The Tokyo Liaison Office of Local Consumer Organisations is now one of the regular sponsors of the annual National Consumer Conference, and such semi-governmental organisations of consumer monitors as the National Association of Consumer Monitors (Zenkoku Shohi Seikatsu Sodanin Kyokai) and the Japan Association of Consumer Advisers and Consultants (Nihon Shohi Seikatsu Adobaiza Konsaruianto Kyokai) participate in the conference regularly.
During the year-long campaign, 5 million signatures were collected for the petition to the Diet, and 3 million for local assemblies. A national rally was held in Tokyo in November 1983 with the participation of 10,000 people (Shodanren). It is said that food producers now refrain from using newly-approved food additives for fear of consumer protest.

The Social Democratic Party of Japan gained 21 additional seats due to a successful electoral campaign led by Takako Doi, who appealed to public discontent over the consumption tax.

The movement’s policy towards economic reforms was also influenced by individual members’ policies: cooperative organisations welcomed deregulation of retail markets as they aimed at relaxation of their retail business activities, while women’s representatives of agricultural cooperatives opposed the opening of agricultural markets.

Some local governments, however, require certain food products to be marked with the production date as well as the ‘use by’ date by local ordinances.


The consumer consultation system sometimes served as a channel through which the organised consumer movement gained access to national policy-making. The EPA, in fact, became the movement’s most important contact in the national government.

The organisation was called the National Liaison Office to Promote the Passage of the Product Liability Law for Consumers (Shohisha no tame no Seizobutsu Sekininho no Seitei wo Motomeru Renrakukai).

For the problems associated with the PL Law, see Takahashi (1996).

The national organisation for the PL legislation, which Shodanren took part in, collected 3.5 million signatures nationwide in 1991–92.

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