Political Dynamics of Regime Transformation in Japan in the 1990s

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Abstract

The 1990s is perceived in Japan as a lost decade, but it also was a decade of profound political, economic and institutional transformation.1 Books and articles reviewed here analyze this unprecedented change from diverse angles. Authors are in agreement that Japanese political economy has undergone major transformation in the 1990s. However, over the issue of how much and in what area those changes have occurred, authors take different standpoints. Also as to what would be the shape of future political setup, they provide us with divergent scenarios.

1 The 1990s is perceived in Japan as a lost decade in a sense that Japanese political situation has been unstable while Japanese economy has been in recession throughout the 1990s, unlike the previous decades when political stability under the LDP one-party dominance was combined with high-growth economy. The term also connotes that, during the 1990s, Japan lost a chance for a fundamental structural reform when it was desperately in need. For further review about the lost decade, please refer to a multiyear project titled 'The Lost Decade?: Re-Appraising Contemporary Japan' at the Institute of Social Science at the University of Tokyo. http://project.iss.u-tokyo.ac.jp/jp. See also, Ryu Murakami, *Ushinawareta Jyunen wo Tou (Addressing the Lost Decade)* (Tokyo: NHK Press, 2000).
This article aims at critically reviewing the literatures on regime transformation in Japan in the 1990s for the purpose of clarifying the directions and magnitude of political change in Japan.

**Regime transformation in perspective**

**Social foundations of regime transformation**

*T.J. Pempel: Social cleavage in globalizing economy*

T.J. Pempel points out that Japanese political economy is in the process of regime shift (Pempel, 1998). The old regime, propped up by the LDP dominance, embedded mercantilism, and supported by wide layers of domestic constituency is being eroded away, while a new regime is to emerge. Pempel finds fundamental changes in the Japanese political economy from the 1960s to the 1990s, sufficiently important to constitute a 'regime shift' (Pempel, 1998: pp. 13 and 137). The stable conservative regime of embedded mercantilism, centered on exports, which was consolidated in the 1960s, moved to an international investor regime through a major transition in the 1970s and 1980s.

According to Pempel, socioeconomic, electoral, and institutional challenges were the underlying forces that led to a regime shift. Mercantilism was disembedded. Conservative core institutions were fragmented. New socioeconomic division merged. In short, the socioeconomic, institutional, and policy underpinnings of the old regime shifted. These changes opened up a series of structural fissures and internal conflicts.

For Pempel, the most central socioeconomic cleavage confronting Japan at the turn of the century was that between internationally competitive sectors and the internationally non-competitive sectors, firms, and groups (Pempel, 1998: 213). Zero-sum intra-conservative tensions are the root cause of the problem, making it very hard for the conservative government to accommodate the demands from increasingly strange socioeconomic bedfellows (Pempel, 1998: 167 and 212). The central question is the extent to which an underlying socioeconomic bifurcation is played out politically (Pempel, 1998: 216).

Because of the globalizing economy, internationally competitive sectors in the investor regime gain more influence, while the reverse is true for the internationally non-competitive groups. The LDP is cornered because it is mainly supported by internationally noncompetitive sectors. Hence, politics is often regarded as a localized battleground, without due regard to the changed socio-economic terrain. In other words, politics in Japan does not fully reflect the changed social configuration. What blocks the final stage of a regime shift is the localized politics. Regime shift is unfinished.

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2 Pempel points out that the political base of the regime shifted as major players in the conservative coalition that dominated the 'exporter' regime were supplemented by groups that played a critical role in the 'investor' regime (Pempel, 1998: 16).
because of the political blockade, but the shift is inevitable. The most probable scenario for Japan’s new regime is the emergence of two-party system, which Pempel calls ‘polarity within the party system’ (Pempel 1998: 217). Structural gaiatsu is needed to facilitate this change (Pempel, 1999: 907–932).

Pempel’s penetrating analysis of regime shift gives meaningful insights into understanding changes in Japan in the 1990s. First of all, Pempel put his analysis firmly in the frame of political economy theory that integrated the analysis of domestic politics with the globalizing economy. He pioneered investigation of the Japanese political reshuffling in the context of the globalizing Japanese economy. Also Pempel takes a comparative perspective by highlighting how the Japanese regime transformation differs from others. Furthermore, he linked the socioeconomic transformation with political change in an institutional context, which gives us a comprehensive insight into regime transformation in Japan in the 1990s.

It is undeniable that Japanese society has undergone great transformation as the Japanese economy internationalizes. However, in order to complete the circle of arguments, Pempel has to provide us with the missing analytical links in his argument.

First of all, this perspective lacks discussion about how sectoral interests are translated into political struggle and reflected in the political arena in the final analysis. Pempel gives us little empirical indication on the way that sectoral interests are to be integrated into the political field. What remains dubious, in particular, is his point about possible emergence of two-party competition, based on sectoral cleavage. The LDP reveals more in the nature of a catch-all party than simply a representative of partial interest.

Second, this argument tends to accept the view that politics ultimately is a register of social restructuring. Unspecified is when and how social transformation is integrated into the political arena. Looking at the social origins of political change may be the starting point of political analysis, not the end of it.

Third, trends in Japan in the 1990s attest to the case that internationally competitive sectors try to stay away from or get out of politics rather than deeply plugging into

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3 Pemple also mentions a scenario of muddling through under the fragmented party positions. The third scenario he describes is the rise of social movements outside the existing party system.

4 Frances Rosenbluth also takes a similar perspective that electoral politics in Japan in the 1990s does not come up with internationalized economy of Japan. Japanese politics is characterized by competition and struggle between internationally competitive and internationally non-competitive sectors (Rosenbluth, 1996: 137–158).

5 As for the theoretical trend that integrates internationalization with domestic politics, refer to, Keohane and Milner (1996).

6 This is in line with the theory that emphasizes national diversity in adapting to global capitalism. With regard to this point, see, Berger and Dore (eds) (1996).

7 Gerald Curtis argues that LDP, unlike conventional notion, developed into a catch-all party even in the 1970s (Curtis, 1988).

8 As for the view critical to this society-centered view, see, Evans, Rueschemeyer, and Skocpol (eds) (1985).
the political affairs.\(^9\) To borrow Albert Hirshman’s term, internationally competitive sectors tend to take an exit option rather than that of voice or loyalty (Hirshman, 1970).

**Nobuhiro Hiwatari: Business preferences and sectoral coalition**

Nobuhiro Hiwatari incorporates the theory of corporate preferences directly into the analysis of Japanese policy trends in the 1990s.\(^{10}\) He unveils the social foundations of Japanese fiscal policymaking, but his analysis gives us a hint about how Japanese political dynamics works. Hiwatari argues that the frequent policy reversals between fiscal stimulus and structural reform policies are the function of converging preferences and interactions of the major economic sectors. According to him, in order to understand recurring fiscal policy reversals under the coalition governments in Japan in the 1990s, one needs to examine sectoral interests and the impact of sectoral coalitions on economic policymaking (Hiwatari: 195). Japanese politics in the 1990s is characterized by irresolute politics as a result of competing and revolving political pressures from unfolding sectoral alliances. In this light, the problem with Japan in the 1990s was not the presence of a coalition government per se, but, rather, the inability of parties to coherently represent specific societal interests (Hiwatari: 231).

Hiwatari develops a typology of economic sector preferences with two criteria: degree of concentration and size of employment. Diverse sectors are supposed to have different preferences: multinational sector, export sector, and small business sector. In this way, he develops more sophisticated typology of economic sectors than Pempel. In reality, these sectors are empirically represented by Keidanren, Nikkeiren, and Nissho (Hiwatari: 208–209). Economic sectors conflict and coalesce with each other, depending on business cycles (Hiwatari: 203–205). In times of recession, the export and small business sectors align in favor of tax cuts and deficit spending. When the economy starts to recover, the preferences of the export sector and the small business sector diverge. The former prefers structural reform, while the latter prefers fiscal stimulus. As the economy realizes robust growth, the export sector and small businesses align to call for structural reform. With the economy slowing down again, the preferences of the export sector and small business sector diverge. The latter prefers the stimulus package, while the former prefers to continue structural reform.

Like Pempel, Hiwatari looks at the social foundation of regime transformation. Hiwatari accepts that Japanese society is divided into two big layers, the competitive and non-competitive sectors: the export and small business sector. The LDP as a ruling party is featured as being receptive in that it accepts the claims from sectoral coalition without any clear policy direction or standard. Therefore, policy direction loses consistency. Politics is viewed as being irresolute, succumbing to different voices at different circumstances.

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\(^9\) Daniel Okimoto’s model of political exchange implies that internationally competitive sectors would take an arm’s length distance approach called general support (Okimoto, 1989: Chapter 4).

\(^{10}\) As to the theory of corporate preferences, see, Milner (1988); also Uriu (1996).
What is different from Pempel is Hiwatari’s analysis about political integration. For Pempel, political struggle does not immediately reflect social transformation. Unlike Pempel, Hiwatari suggests that social change is closely intertwined with political dynamics. As social cleavages are duly translated into the political arena, political leaders are encircled by different claims. In other words, political leaders in the LDP stand in between those two different sectors. Accordingly politics turns out to be irresolute, vacillating, and timid.

The unsolved question in this analysis is the coherence of business preferences. The preferences of economic sectors are ultimately determined by economic circumstances. Rather than having a firm principled preference, the same sector switches its preferences between fiscal stimulus and structural reform, depending on business cycles. Not only are the political parties irresolute, but also economic sectors.

Also the political mechanism of translating sectoral preferences into fiscal policy outcomes remains unclear. Like Pempel, Hiwatari does not take into account the relative autonomy of the political arena. Shifting social coalition puts pressure on the political world. Politicians are treated as having no choice but to accept their claims, because of volatile economic situations. Seen from this perspective, what leads the political situation are economic crisis situations and social pressures derived from those situations.

Unlike Pempel, Hiwatari suggests that the LDP is responding to social claims. The problem is not rigidity but too much flexibility. For Hiwatari, the LDP is a political party that tries to encompass a wide range of social sectors. In this sense, his view is different from Pempel who regards the LDP as being rigidly local and mostly representing the interests of internationally non-competitive sectors. However, despite their different views about the nature of the LDP, Hiwatari and Pempel end up with similar conclusions. For both of them, the LDP is in trouble because enemies sleep in the same bed. Hence, if we extend this logic further, Japanese politics would be stabilized if the LDP as a ruling party neatly represents either the competitive or non-competitive sector or when one of those two sectors predominates the other. What matters is less political leadership than sectoral dominance or compromise in social configuration.

**Institutional foundation of political transformation**

**Gerald Curtis: political leaders and informal institutions**

Gerald Curtis tries to make sense of Japanese political change in the 1990s by stepping inside the Japanese political institutions (Curtis: 10). He focuses on four
crucial pillars that supported the 1955 system and their profound changes. First, a pervasive public consensus in support of catch-up with the West declined. Second, large integrative interest groups with close links to political parties are rapidly eroding. Third, a bureaucracy of immense prestige and power is under heavy popular criticism. Fourth, a system of one-party dominance is gone. Though these old pillars are collapsing rapidly, innovative new approaches to convince the public and the political arena are yet to be established. So the politics of complacency prevails.

Unlike previous authors, Curtis defines the nature of the Japanese state as ‘refractive’, in a sense that absorbs and responds to demands emanating from groups in civil society and from the electorate, but tries in the process to bend those demands into a shape that conforms as much as possible to the interests and the preferences of the managers of the state themselves (Curtis: 9). For Curtis, a center of analysis lies not in social configuration itself or the demands from social groups, but political integration of those demands and requests. Politicians are at the center of his analysis. He focuses on politicians and the institutions within which they operate (Curtis: 19). Curtis tries to show us how resistance to radical change is anchored deep in Japanese society and its political institutions.

For Curtis, evaluating the role of informal institutions is crucial in understanding the logic of Japanese politics. He explains the end of one-party dominance, largely in the context of factional dynamics. The role of kokutai on the rise and fall of coalition governments and LDP’s return to power was vitally instrumental, according to him. The implication of Upper House autonomy in the electoral reform drive is also discussed in a chapter.

However, the logic that Curtis is analyzing is mostly about the logic in the political circle. Social foundations of political change are relatively neglected in his analysis. Accordingly, for Curtis, change looks incremental rather than radical, because politicians act not as registers of social demands but as entrepreneurs in the political marketplace who try to keep their vested interests. What counts are not demands from ordinary people but political interests and institutional maneuvering. Unlike Pempel or Hiwatari, Curtis looks at fragmentation in the political world and the changing logic of political competition, not division in social sectors. Therefore, he is good at accounting for the logic of Nagatacho politics. The question of how the Japanese society is shaped in this period of tumultuous and unstable change remains unexplored.

Unlike any other authors, Curtis sheds lights on the interaction among politicians within the institutional context. He suggests correctly that political behavior is not simply a reflection of social demands. In this sense, Curtis is keenly aware of the gap, or discrepancy, between the logic of Japanese social change and that of the political arena. The political arena is pressured to change ultimately, but the political circle can resist change because of institutionalized inertia and embedded interests. If we follow

\[13\] Extreme version of this argument can be developed into a rational choice model. As for the application of rational choice model to Japanese politics, see, Ramseyer and Rosenbluth (1993).
his logic, change is not unlikely, but it would only be incremental with no chance of a radical shift. Curtis’s analysis implies that, though their footholds are disintegrating, politicians remain complacent about slow change, because their vested interests can be realized, even in a changed political context.

**Policy Foundations of Political Reshuffling**

*Hideo Otake: Abortive neoliberal drive after defense controversy*

Hideo Otake analyzes on the neglected side in the analysis of Japanese political dynamics – policy controversy. Otake takes a position that policy controversy matters in Japanese politics. Policy controversy was meaningful under the 1955 system where the defense controversy basically fragmented the conservative and progressive camp (Otake, 1990). Otake’s basic position is that no primary policy controversy emerged after the defense controversy under the 1955 system waned. Otake makes conceptual differentiation between political realignment and party realignment (Otake: 1990: 3). Otake defines political realignment as coalition and parting among politicians without the engagement of the electorate, while party realignment is understood as fundamental change in party support among the electorate. According to Otake, political change after 1993 takes a form of political realignment with no visible party alignment.

Otake posits that defense issues have been the primary pillar of policy controversy for about 40 years since the start of the 1955 system (Otake, 1999: Chapter 1). During the Nakasone administration, a new dimension of policy ideas represented by neo-conservatism was plugged in, but it was too hard an issue for the ordinary electorate to comprehend and redirect party support. After the revelation of the recruit scandal, the pillar of controversy was centered on interest politics versus clean politics. Ichiro Ozawa attempted to reconstruct the policy pillar of party competition on the basis of a neo-liberal initiative against big government. However, because of the overall inter-party consensus on the issue of reform, defense again featured as a major pillar of policy controversy. What complicated the situation was the emergence of intra-party strife between moderate conservatives, who follow the conservative mainline policies, and neo-conservatives, who follow Nakasone’s policy line (Otake: 82–84). In other words, policy conflict existed not between parties but within the LDP. And it was more to do with the power struggle within the LDP. There was a slim chance of intra-party conflict developing into party realignments at the level of the electorate, but more likely were attempts to reestablish LDP dominance combined with temporal advancement of opposition parties that resist such trends (Otake: 85). A new pillar of policy controversy is yet to emerge.

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14 Otake makes this point clear again in another book published in 2003. Otake even argues that political reshuffling in the early 1990s was not political realignment without ideology or policy. Much more appropriate description of reality may be that political reshuffling took place under strategic blindness because parties excessively adhered to ideologies (Otake, 2003: 16).

15 Curtis and Otake take the same position with regard to this point.
Otake also analyzes why neo-liberalism could not constitute a major policy controversy in Japan, despite its potential to be one. He finds the clue from the socio-economic structure of Japanese society and argues that the Japanese social structure is designed to strongly resist neo-liberal claims (Otake: 136). The institutionalized lifetime employment system makes it very hard for firms to fire workers. Competitive private-sector firms end up with sharing more of the welfare burden. The social democratic elements deeply embedded in Japanese social institutions prohibit Japanese political leaders from introducing serious neo-liberal reform. In this sense, neo-liberal reform is still a challenge, not a reality (Otake: 238).

Unlike many analysts of Japanese political economy, Otake puts emphasis on policy cleavages or the policy foundations of political dynamics. For him, neo-liberal reforms in Japan turn out to be abortive because they are overshadowed by other policy controversies or because Japanese social institutions hinder full-fledged implementation of neo-liberal reform. Otake’s analysis is distinctive in that successive coalition governments are understood in terms of their policy foundations. According to him, even after the LDP formed the coalition with the SDPJ and Sakigake, when the SDPJ had dropped its defense-related political rhetoric, contention between the conservative mainline and neo-conservatives persisted. However, policy debates emerged within the LDP, not between the LDP and opposition parties, which is a striking difference from the 1955 system. In other words, inter-party policy cleavage was converted into intra-party policy controversy. This converted logic made it very difficult for the Japanese electorate to choose a party of their preference based on policy diversion.

Atsushi Kusano: Discrepancy between policy ideals and reality

While Otake focuses on LDP-centered policy controversy, Kusano touches on policy controversies between political parties, especially among coalition partners. According to Kusano, political instability in Japan in the 1990s was closely intertwined with policy divergence among major political parties that engaged in the governing coalition. Problems arose because of policy discrepancy, not the lack of policy debates, between coalition partners.

For Kusano, two policy axes played an important role: one was foreign and security policy, which is concretely about whether Japan should cooperate with PKO activities under the United Nations; the other was economic management of the Japanese society, which is a choice between big government and small government (Kusano: 77–82). Political parties in Japan stood on a particular policy line along these two axes, but, after the end of the 1955 system, parties enter into coalition only with overarching consensus. However, as time lapsed, each political party reached the limit in terms of making policy compromises with coalition partners. Differences on the details of policy issues led ultimately to the breakup of political coalitions.

According to Kusano, the Hata regime was based on a policy consensus of a small government combined with active international cooperation (Kusano: 96–99). However, the Social Democratic Party of Japan and the New Party Sakigake were
inclined to advocate big government and were reluctant to encompass the increasing international contribution. This policy position brought those two parties closer to the LDP, which made the resumption of power by the LDP possible. The Murayama cabinet stood on a disguised policy consensus in that, while the LDP opted for active international contribution, the SDPJ actually preferred the principle of big government and little international contribution. This policy discrepancy widened when Hashimoto assumed power after Murayama resigned. The LDP under Hashimoto shifted toward the principle of big government combined with an active international contribution. In other words, policy difference in the area of foreign and security policy set the LDP and SDPJ apart. This made the SDPJ walk out of the coalition partnership. Then Obuchi became prime minister by incorporating Ozawa and Komeito. According to the policy accord, the Obuchi regime had to stand on a policy of small government and an increasing international contribution. However, in reality, LDP and Komeito opted for a policy line of big government, while they agreed on the principle of international contribution. That left Ozawa aloof, which resulted in the break up of the coalition that ended the Obuchi cabinet.

Hence, Kusano asserts that policy lines seriously mattered in Japanese politics in the 1990s. Political parties tried hard to get over this policy cleavage by mutually stepping back and making a temporary compromise. They played a game of mutually stepping back and making convenient compromise. However, at a certain point, compromise was no longer feasible when policy differences touched on the issues related to fundamental party identities. According to Kusano, this recurring pattern of compromise and break-up among political parties characterized Japanese politics in the 1990s. So Kusano calls this period a regime in the transitional phase (Kusano: 23).

Points of convergence and divergence

Pempel and Hiwatari analyzed the social foundations of regime transformation, while Curtis links regime transformation with changed institutional dynamics. Otake and Kusano work on policy foundations of regime transformation.

The authors reviewed here agree on the point that Japanese politics is undergoing profound transformation, which is not reversible. Depending on the author, analysis differs as to whether this change is fundamental or not. For example, for Pempel, the regime shift he describes is a fundamental change, while for Curtis we have to wait longer to see a fundamental redirection of Japanese politics. However, both authors are in agreement that Japanese politics is quite different from the era of the so-called 1955 system. Pillars that supported the old regime have eroded; LDP dominance cannot be guaranteed; and the high esteem for national bureaucracy has disappeared. National consensus on catching up with the West does not make sense any more. Japan is no more a country of simply exporting manufactured goods; it is an international investor deeply geared into the world economy. In this sense, it is absurd to expect that, after twists and turns, Japanese politics will return to those good old days of conservative one-party dominance.
Also the authors reviewed here all suggest that policy controversies prevailing under the 1955 system altered over time. Otake finds less controversy related to defense and security issues. For Cutis, the so-called GNP-ism is no more taken for granted. Though we do not see clearly defined alternative policy controversies, it is certain that old policy contentions faded away. This is a reflection of the pluralized Japanese society. One may even call this the fragmentation of the Japanese society. Though not all authors converge on the point that Japanese society is divided by two big blocs of internationally competitive and non-competitive sectors, they agree that Japanese society is much more pluralized and fragmented than before. Accordingly building a new consensus is not an easy political task. That is one of the reasons why Japanese politics is still in flux.

Despite convergence of opinions on profound transformation, each author highlights different levels of analysis. Pempel and Hiwatari emphasize the social foundations of Japanese political dynamics. Underlying political change is a fundamental shift in social cleavages, especially affected by globalization of the Japanese economy. On the other hand, Curtis, Otake and Kusano focus on the interaction of party politicians in the changing social context. For them, politics is not a mere reflection of social demands or preferences. Politics has a logic of its own and a realm of autonomy.

As to how societal change is translated into political dynamics, authors differ on this as well. For Pempel, what explains the translation mechanism is punctuated equilibrium. Social change and political change move like tectonic plates. Therefore, social transformation is not immediately translated into political dynamics. Several phased changes – the first-order change, the second-order change, and a fundamental regime shift – are likely. Though he defines the Japanese political changes in the 1990s as a regime shift, other authors would call it more like the first – or second-order change. For Hiwatari, economic sector preferences are translated with short time gaps. Demands from the business sectors are reflected as policy lines immediately. Thus, political parties are seen as being irresolute. What remains ambiguous is how those social demands are translated into policy reversals. For him, policy change is automatically derived from convergence or divergence of changing economic sector preferences. This is hardly the case for Curtis. According to Curtis, political elites do not accept social demands as they are. They do it in a refracted way. Though political leaders respond to social change in the end, they control the timing and the extent to which they accept social demands. In contemporary democracy, Curtis argues, choice of political elite matters more.

**Analytical implications**

A few implications can be elicited from the above analysis of Japanese politics in the 1990s.

First of all, politics in Japan is neither an automatic reflection of socioeconomic cleavages nor an autonomous dialectic interaction among political leaders. Socioeconomic changes emerging in the midst of the globalizing economy create tensions within the political arena, but the pace and depth of their political reception
is decided by the political circle. All too often, the demands from the social sectors are refracted because politicians interpret them in their own way. It may be that politics and society is in constant interaction and political will is operating within the boundaries of social change. However it does not necessarily mean that social change is immediately incorporated into political arena. Social demands in a democratic setting are not ignored, but it takes time for them to be translated and reflected in the political arena. When social plates move, politics move as well, but not exactly at the same pace.

Second, even when bifurcation within the social sectors matters, what is politically important is not simply a cleavage within the business community. The business community is but one part of the whole society. In that the business community has more weight in terms of political money, the business community matters more. But in terms of votes, one can hardly say that they have more votes than others. What matters ultimately in politics are votes rather than money. Also the business community is not neatly divided into internationally competitive and non-competitive sectors. It is more so in Japan, because small and medium size industries are closely intertwined with big business in terms of contract ties. Hence, giving too much weight to the business community may be an analytical over-extension, though it may not be false. It is a challenge for the analysts of Japanese politics, therefore, to put the unorganized mass and floating voters in the right context. Without gauging the influence of them, one may diagnose the problem incorrectly.

Finally, predicting or expecting the LDP to fade away is rather wishful thinking, not an analytical conclusion. To the students of Japanese politics, the LDP easily falls as a target of criticism, which is quite understandable when we think of the extended one-party dominance in postwar Japanese history. However, despite all these criticisms, Japanese people still opt more for the LDP than other parties. It was Japanese voters that made the LDP the ruling party. Neither forceful repression nor unmistakable wisdom on the part of the LDP was the source of LDP strength. The LDP also tries hard to remain in power, especially after it once lost power in 1993. The LDP has more chance of losing power because of its own blunder than because of a popular alternative leader.

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