

Japan's Inexorable Decay

*The exponential growth
of political failure.*

BY WILLIAM H. OVERHOLT

After the Democratic Party of Japan's overwhelming September 2009 victory following half a century of LDP dominance, Western commentators hailed Japanese democracy's revitalization with, finally, a two-party system. They were wrong. Japan inaugurated a no-effective-party system that continued the decay of a regime that has been in decline since 1975.

Although hopeful, Japanese voters did not give the DPJ a mandate to govern. They gave the LDP a mandate to exit. The Hatoyama government comprised an unmanageable coalition of those who opposed the LDP: socialists, old communists, a religious party, the most reactionary elements of the old LDP, and idealistic youth. Unable to govern, its poll support collapsed from 70 percent to 14 percent eight months later. Yukio Hatoyama resigned and in July 2010 the DPJ managed to win even fewer seats than the old LDP.

Controversy over relocating a U.S. base triggered Hatoyama's fall, but Obama didn't bring Hatoyama down. After the incoherent policies and the corruption scandals affecting Ozawa and Hatoyama, collapse was inevitable. Japan desperately needed enhanced competition at home, enhanced globalization, reduced corruption, and reduced waste of national resources. However, Hatoyama denounced globalization, presided over traditional elec-

toral corruption, paid off the usual interest groups, promised to expand the wasteful postal savings system, and promised to rescind reforms of the country's vast, redundant national post office network. His contradictory national security policy proposed to loosen ties to the United States while keeping Japan's military weak at a time of rising tensions with China. He committed to making Japanese leaders less dependent on the bureaucracy, a worthy goal, but not if the politicians couldn't make coherent policy. His successor, Naoto Kan, ran on a platform of drastically raising the consumption tax while cutting corporate taxes—in a country where corporations are extremely rich at the expense of consumers who have to pay over \$100 for a good melon or a slice of good steak.

Unfortunately the DPJ's decline probably does not end Japan's long political decay. What brought Japan to this state? The answer is found in the country's successful search for stability.

JAPAN'S SUCCESSFUL POSTWAR STABILIZATION

Postwar U.S. and Japanese leaders sought stability for a demoralized, divided, unstable, and threatened Japan.

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They started by vesting power in the bureaucracy, keeping much of policy safe from democratic politicians. Half of government revenues were off-budget, away from political scrutiny.

But the country remained divided, vulnerable to gridlock, disruption, and communist subversion. Then, in 1955, the two conservative parties joined to create the LDP, backed by a system of patronage, bureaucratic control of vast resources not subject to democratic oversight, corrupt political funding, U.S. support, political management of the media and judicial system, and successful economic policies that no challenger could defeat. The LDP governed with only one tiny break until 2009. The 1955 political system perfectly complemented the so-called 1940 economic system which, to mobilize the country for war, gave the government great power to guide the economy, ensured big companies against failure, and protected Japanese companies against foreign competition and takeovers. Even after electoral defeat, the LDP-founded institutional system persists.

The LDP's stabilization of Japan and its successful economic policies—subsequently emulated throughout the region—saved Asia for the West. For twenty years, the LDP borrowed best practices from all over the world, built world-class administrative institutions and infrastructure, supported world-class conglomerates, and pushed aside interests that impeded national progress. By its example and its economic stimulus, it stabilized Asia. Without Japan's example and stimulus to the smaller regional economies, American military might would have availed little.

STABILITY BECOMES OSSIFICATION

With the Japanese miracle soaring, powerful prime minister Kakuei Tanaka determined to rebalance political power. To wrest some power from the bureaucrats, he organized the legislature into *zoku* (tribes) backed by the

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Quite a Record

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most powerful interest groups, notably agriculture, construction, property, retail, and banking. The legal and immense illegal resources the *zoku* could mobilize made them insuperable. But after the Lockheed corruption scandal brought down Tanaka in 1972, the *zoku* and the bureaucracy allied into an ossified system that inhibited fundamental political or economic change. Japanese politics became a subsidiary of the interest groups behind the *zoku*.

The economic miracle begat complacency. By 1975, Japanese leaders were convinced that superior economic growth was in their DNA, ensuring leadership of Asia and eventually the world. Instead of sidelining obsolescent interest groups, they subsidized them. Vital postwar infrastructure construction segued into egregious patronage: railroads to small towns, superhighways to small villages, long bridges used largely by deer, and concrete lining of every river and stream in Japan. The Japanese intelligentsia call this *zoku* dominance of decision-making "structural corruption," a phenomenon far more debilitating than Chinese corruption. In China, most transactions entail bribes or kickbacks, but policy moves the economy forward. In Japan, most officials are scrupulously honest, but policy dominated by reactionary interest groups prevents reform.

Instead of sending teams abroad to seek best practices, leaders began to emphasize Japanese uniqueness. Foreign trade negotiators asserted that imports of U.S. beef must be prohibited because Japanese intestines were a different length. European skis were unacceptable

The Power of Change

Understanding the process of decay clarifies many issues. Facile comparisons between Japan's lost decades and America's post-crisis problems fade when one contrasts Japan's ossification with U.S. capacity for change. The bipartisan 2000 Armitage Report demand to reduce U.S. attention to China and reestablish a Japan-focused Cold War national security structure would never have been attempted had U.S. national security specialists understood Japan's decay. The Japanese popular futility in the face of interest groups' power explains the electoral apathy and yearning for change that nearly allowed Japan's right-wing nationalists to take power—a risk that could arise again in even more unpalatable form. The power of *zoku* money makes comprehensible why Ichiro Ozawa, a reactionary ex-LDP machine politician blackened by scandal and opposed by 79 percent of the electorate, got 200 parliamentary votes to Kan's 206 in balloting for party leadership. Ozawa's defeat could initiate renewal—or gridlocked incompetence.

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because Japanese snow was different. Foreign goods in general needed to be restricted because Japanese housewives didn't like foreign things.

Grateful for corporate funds, the LDP protected many businesses from competition, enabling them to squeeze the citizenry through high prices. Restrictive property and tax laws kept living spaces tiny. Resultant lack of domestic demand kept the economy dependent on exports for growth. But import constraints raised production costs and thereby limited exports. Restricted competition led to inefficiency. Although Western nightmares about Japanese economic domination persisted past 1990, productivity and growth steadily declined after 1975; the 1990 bubble bursting and two subsequent wasted decades just accelerated post-1975 decay. (See Richard Katz, *The System That Soured*, M.E. Sharpe, 1998.) Demographic decline and lack of domestic demand have made it impossible for Japan's economy to grow without fiscal stimulus that has accumulated national debt over 200 percent of GDP (net debt over 100 percent of GDP) and growing fast.

Although Japanese incomes are nominally very high, by 2000 Shanghai farmers, in a country with a nominal average incomes about 5 percent of Japan's, were living better than mid-career Tokyo executives—in

spacious two-story detached houses, with stylish clothes and \$30 DVD machines barely lower in quality than Japanese \$600 machines. Likewise, calculations by Richard Katz of *The Oriental Economist* show that by around 2015, purchasing power-based Korean incomes will likely exceed Japanese. Even while Japan's economy remained much larger than China's, China's far more open economy yielded trade connections and attendant influence with neighboring countries that far exceeded Japan's.

Decay is feeding on itself. Japan is about to graduate its first class of college students who have never experienced solid economic growth. They lack the conspicuous energy and optimism that have vividly characterized youth in modern South Korea, Taiwan, China, and pre-1990 Japan. While Chinese and Korean students flood U.S. universities, Japanese professors report declining student interest in foreign language and experience. A disturbing number of Japan's great companies are in relative decline. Samsung, Hyundai, and Korean Airlines are eating the lunch of Sony, Toyota, and bankrupt Japan Airlines. Japan's stodgy commercial banks are increasingly overshadowed by Chinese banks that a mere decade ago seemed hopeless. Beneath still-brilliant Canon and Honda are extensive mushy, protected, uncompetitive sectors.

A decade ago, facing crisis, Prime Minister Koizumi cleaned out the banks, increased transparency, allowed some (not enough) old firms to die, globalized somewhat, and started to cut the taproot of the structurally corrupt patronage system (the Postal Savings Bank). He thereby averted a Japanese financial collapse that would have taken the world economy down long before 2008. This heroic accomplishment required him to run against

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his own party, threatening to “destroy the LDP.” Ironically, his success actually saved the LDP and condemned Japan to another decade of political and economic decay.

Koizumi’s successors restored complacency. The Abe, Fukuda, and Aso governments ignored economic reform. The DPJ’s Hatoyama reversed reforms, denouncing globalization and explicitly repudiating much of Koizumi’s most important reforms of the Postal Savings Bank and the post office system.

Post-Koizumi leaderships have looked to the past rather than to the future. As the core LDP weakened, its far right, represented by Prime Ministers Abe and Aso and by Koizumi’s need to maintain right-wing support by patronizing the Yasukuni Shrine, sought to restore Japan’s self-esteem by countenancing and encouraging the rewriting of history, giving stature for instance to those who argue that the United States deliberately caused World War II, that invasion of China was necessary, and that Koreans invited Japanese colonization.

Hatoyama’s more honest backward-looking vision counterposed to the evils of globalization a nostalgic vision of traditional village Japan, to be supported by maintaining much of the rural patronage system that has so drained Japan’s finances and inhibited its social modernization.

No influential leader has yet provided a credible vision of the future. Japan has the world’s most educated populace, exceptional technology, great organizations, honest and competent officialdom, outstanding energy efficiency and environmental standards, and the world’s

most civilized standards of behavior. It could show the world how to manage a graying society in ways that take human dignity to new heights. But to do so, its leaders must enhance competition, globalize investment and trade, give women equal job opportunities, and expand immigration.

Opponents of reform invoke “cultural” traditions that were actually copied from German and Soviet prewar mobilization efforts. Japan’s leaders must explain to their people that the remnants of the 1940 and 1955 systems are not unique ancient Japanese traditions that assure contemporary success. Rather, they were specialized responses to the needs of wartime mobilization and postwar recovery. Japan today is like Nissan before Carlos Ghosn: everyone knows what needs to be done, but the establishment can’t do it.

FUTURE REFORM?

Once before, all of eastern Asia learned from Japan. The Japanese miracle became the Asian miracle. Now the flow of learning must reverse. South Korea, coming from worse poverty, greater financial trauma, and similar demographic problems, not to mention a worse problem with North Korea, has shown through faster globalization, improved employment opportunities for women, greater competition, and more sustained financial reform how to create a more dynamic economy. China, with its greater openness to foreign trade, foreign investment, and foreign culture, may well avoid the risks of Japan-style ossification.

Historically, Japan has reformed more successfully than other nations when faced with great crises. Japan’s eras of magnificent achievement occurred immediately after Admiral Perry’s Black Ships appeared in the mid-nineteenth century, and again after General MacArthur’s gray ships in the mid-twentieth century. Both periods of spectacular economic growth and rising prestige resulted from repudiation of traditional organization in favor of globalized best practices. But each time, following success, Japan ultimately rejected the lessons of institutional globalization and turned inward.

Decay of the old fruit necessarily precedes germination of a new seed. Japan has both solid fundamentals and exceptional international goodwill. U.S. commitment to a supportive alliance with Japan is unchallenged. Virtually the entire world hopes that this time Japan will reform and revitalize without some terrible crisis. Leadership could come from new parties like Your Party or from coalescence of younger leaders drawn from several parties. Meantime, the postwar U.S. and Japanese leaders who sought to ensure stability built very solidly—too solidly. ◆