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Japan at the Crossroads

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SUMMARY Japan, whose modern history includes revolutionary change during the Meiji Restoration and after WWII, is again facing the prospect of remaking itself. This time the impetus is a decade of stagnant economic growth and the resulting pressures from an uneasy electorate and from worried Asian neighbors and the U.S. In response, the Japanese government is now promising extensive, even radical, reform. But such rhetoric must be viewed with caution. For Japan's postwar economic success has made its citizens leery of fundamental change while simultaneously undermining the four major pillars of the modern political system: a public consensus on national goals; the presence of large, integrative interest groups; a powerful and high-prestige bureaucracy; and one-party dominance. Meanwhile, a fifth pillar of modern Japan still stands: the U.S.–Japan alliance. Though often buffeted by trade disputes, it is misunderstandings about regional political and security issues that really threaten the relationship. If it were to collapse, so might expectations for incremental and constructive change in Japan.

Japan faces problems today more serious than at any time since the early 1950s. Indeed, many Japanese consider the challenges that now face their nation to be as momentous as those it confronted at the time of the Meiji Restoration in 1868 and in the immediate aftermath of World War II. Threatened by western imperialism in the mid-19th century, the reformers that rallied around the Meiji Emperor embarked on a crash program to create a "rich country, strong army" and to catch up with the West in order to avoid being overrun by it. Under occupation by allied forces after World War II, Japan remade itself again. Shigeru Yoshida, the prime minister through most of this formative postwar period, laid down a policy line that was to become the cornerstone for domestic and foreign policy for the subsequent half-century. It called for alliance with the United States, democracy, and an unswerving commitment to economic development.

Japan is again at a major crossroads. Following the bursting of the so-called bubble economy in the early 1990s, it has confronted low or no economic growth, rising unemployment, and the near collapse of its banking system. The institutional arrangements it devised to carry out the developmental strategies that resulted in Japan becoming the world's second largest economy are now widely thought to be an impediment to needed change. While groping, so far without success, for a policy mix that would get Japan back on a track of sustained growth, the government has had to face an electorate at home that is nervous about the future and dissatisfied with its leaders, as well as neighbors in Asia and the United States who fear that Japan's failure to recover quickly will inhibit Asia's rebound from the financial crisis.

Some Americans who just a few years ago believed that Japan would never change are now convinced a revolution is under way

Pressures abound for change, and how Japan responds to them will be largely determined by a struggle among domestic interests competing within a democratic political system. There are certain to be important changes in the Japanese political economy, but they are likely to be less extensive than was true for the two previous critical turning points in modern Japanese history.

From Denial to Calls for Radical Reform

The response of Japan's political leaders to the economic fallout generated by the bursting of the bubble economy has cycled through three distinct phases. First was the phase of denial in which Japanese leaders refused to admit the need for a basic course correction in the nation's macroeconomic policy mix. Instead, the government in the mid-1990s raised the consumption tax from 3 to 5 percent and passed legislation that committed Japan to move quickly toward a balanced budget. This only succeeded in aborting economic recovery and making things worse.

This gave way to a second phase of grudging acceptance of the need for fundamental changes in key aspects of economic policy. The government saved the banking system with a huge infusion of funds. Prime Minister Keizo Obuchi, as soon as he came into office in July 1998, quickly adopted an aggressively expansionary fiscal policy.

Now Japan has entered a third phase in which political leaders, beginning with the prime minister, have embraced a rhetoric of radical reform. Talk about the need for greater transparency and accountability, for greater political control over the bureaucracy, for less job security and greater labor mobility, and for more deregulation and openness to foreign investment is now part of the mainstream discourse in Japan.

One must be cautious about accepting this rhetoric at face value. Some of the same Americans who just a few years ago insisted that Japan would never change are now convinced by their Japanese interlocutors that a veritable revolution is underway and that Japan is remaking itself in the image of the American political economy. These excessive expectations are bound to be disappointed.

Hyperbole, no doubt, serves an important function in Japanese political discourse by helping to generate the consensus needed for even modest change. All of the candidates, for example, in the Liberal Democratic Party presidential election that followed the 1998 resignation of Prime Minister Ryutaro Hashimoto engaged in it. Challenger

Change in Japan will occur in an evolutionary, not revolutionary, fashion

Seiroku Kajiyama repeatedly argued that Japan would "sink" unless it changed its economic structure in fundamental ways. The favorite expression of the successful candidate, Keizo Obuchi, was that Japan "had no tomorrow" unless it changed its economic and political system. Japan, of course, has been changing and it will continue to do so. Deregulation of the financial sector, the so-called "Big Bang," is creating major changes in the organization of the Japanese financial industry and is opening that industry to foreign investment to a degree unimagined even a few years ago. There has been a far-reaching liberalization of the distribution sector. Changes in other industries, including telecommunications, are gathering steam as international competition forces industries to restructure.

Nevertheless, change in Japan is going to occur incrementally, in an evolutionary rather than revolutionary fashion. In this sense, one cannot draw too facile an analogy between present-day Japan and the Japan of the Imperial Meiji period or the post-World War II period when, as a shattered country under Occupation, it could be forced to accept a program of radical political, economic, and social change. Japan today is a democracy in which government policy reflects the push and pull among voters and interest groups pursuing their own particular interests. Moreover, Japanese public opinion is ambivalent, and the political leadership all too accurately reflects that ambivalence. People seem to recognize that things have to change if Japan is to overcome its problems. At the same time, they are loath to scuttle institutions and ways of doing things that have brought them a level of economic prosperity and peace that few imagined possible even a few short decades ago.

It is also sobering to remember that even in the Meiji period it took a good quarter of a century for Japan to settle on a new governmental structure and that now, half a century after the end of the Occupation, scholars increasingly tend to the view that reforms during that period brought about less fundamental change than the reformers anticipated.

The Pillars of Success

The problems that Japan faces today are compounded by the fact that they have been created in large part by Japanese success itself. It is not simply that this success has rendered obsolete patterns of behavior and institutional arrangements that were appropriate to a developing rather than an advanced economy. Even more important is that Japanese economic success has weakened or caused the collapse of four of the major pillars supporting the political system of the postwar period. Japan now confronts the challenge of repairing, replacing, or doing without these key supports of the Japanese political system as we have come to know it.

The unraveling consensus. The single most important such pillar was a public consensus on national goals. Japan in the postwar years was deeply divided over issues of foreign and defense policy and over the constitutional order imposed by the United States. But there was a consensus that Japanese should dedicate their energies to bringing about the recovery of an economy devastated by war and to resume the long-term objective of catching up with the West, this time by peaceful means. Partly because the society was so deeply divided over other issues, the ruling Liberal Democratic Party put great emphasis on the unifying themes of economic recovery, rapid industrial growth, and what amounted to a virtual ideology of "GNPism."

The pervasiveness of a consensus to concentrate the nation's energies on rapidly growing the economy made possible many of the well-known features of postwar Japan. It meant that consumers were willing to defer consumption in order to fund investment and willing to put up with high consumer prices and low interest rates on their bank accounts. It meant that the bureaucracy was given great latitude to implement policies to achieve rapid economic development. It meant that the LDP would seek to retain power by downplaying divisive issues, such as military policy, and assuring that its key bloc of rural supporters would be the recipients

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of agricultural subsidies and other forms of government largesse. The public consensus on growth was also sustained by the government's commitment to pursue both rapid economic development and relatively equitable income distribution. The "miracle" of postwar Japan is not that it grew fast but that it did so while redistributing income more equitably than almost all other OECD countries.

Economic success and the social changes that it generated have undermined this public consensus on goals. Japanese, of course, want their nation to prosper, but it is not as clear as it once was what prosperity means or what the appropriate policies are to achieve it. Japan has become a pluralistic society and, under even the best of circumstances, a low-growth economy. The competition for limited government resources is far more intense than during the period of rapid growth. And there is broad agreement that the Japan model that helped bring about rapid economic growth is not a suitable model for managing a developed economy.

It is much more difficult to generate a public consensus on national goals in this environment. This is particularly the case because Japanese, quite to the surprise of many foreigners who think of people in urban Japan living in "rabbit hutches," commuting to work on over-crowded trains, and paying exorbitant prices for the goods they buy, exhibit high levels of life satisfaction. The basic reason is that Japanese do not compare their lives to what they hear is the lifestyle of middle-class Americans. They compare them to what they have experienced in the past or what they have been told by their parents about the difficulties they faced only a few decades ago. There is a consequent reluctance to part with practices that have been associated with the successful economic policies of the postwar period and a fear of flying into a future of reduced job security, greater social inequality, and no guarantee of economic success. And despite the United States' spectacular economic performance in recent years, the American model of unfettered capitalism holds much less appeal for the mass of Japanese than the American dream of freedom, democracy, and welfare state capitalism did in the early postwar years.

The result is an ambivalence about change and an absence of consensus. Many Americans do not hesitate to lecture the Japanese about how they must change, just as Japanese lectured a decade ago when their economy was booming and the U.S. one was not. But Americans, and especially American officials, would be well advised to back away from publicly berating Japanese for not doing what Americans think they should do to manage their own economic affairs. Building political support for new policy departures in Japan will take time and the results will not remake Japan in the image of the United States. To expect otherwise is to invite disappointment. To demand otherwise is to sow the seeds of unnecessary and counter-productive friction in U.S.–Japan relations.

From interest groups to special interests. Another pillar of the postwar system was the existence of large interest groups that exerted a strong influence over political parties and government and that played an important role in setting the national policy agenda. Organizations representing big business, labor, and farmers were cohesive and powerful. During the period of rapid economic growth, roughly from 1955 to 1970, the nature of the demands they pressed on the government—whether with regard to industrial policy, the government-guaranteed rice price, or labor wages and conditions—were national in scope. These organizations aggregated the interests of thousands of groups and millions of people into a limited set of coherent and competing policy demands. In so doing they played a crucial role in defining the nation's policy agenda and in structuring political competition among its political parties.

As Japan's economy matured, the interests of business, labor, farmers, and other groups became more diverse and the earlier cohesion of organizations such as the big business community's Keidanren, or the national federations of labor unions, or the farmer's agricultural cooperative association weakened. It became increasingly difficult for any of them to speak with a single, clear voice on policy matters because their members had developed different and conflicting interests.

The weakening of bureaucratic authority is irreversible

The decline in cohesion and power of large, integrative interest groups is evident to a greater or lesser degree in all advanced, "post-industrial" democracies. Industrialization encourages a pattern of interest aggregation among workers, farmers, and business people. Post-industrial affluent, educated, media-saturated, middle-class societies like Japan or the United States, where the majority of the labor force is employed in services rather than in the manufacturing sector, encourage a pattern of interest disaggregation, of a politics of "special interests" rather than interest group politics. Through their political activities, large, integrative interest groups helped determine the overall policy agenda of parties and of government. The politics of the special interests encourages competition within as well as between political parties, as individual politicians energetically lobby on behalf of "their" special interests.

The shift from interest group politics to the politics of the special interests does not mean a decline in the influence and power of social groups in the political system, but rather the fragmentation of that power and influence. In some ways special interests are more powerful because they tend to pursue their goals through individual politicians who are dependent for their very political survival on their continuing support. In industrial societies interest groups provided cues to political leaders that helped define broad policy goals. The politics of the special interests, almost by definition, eschews concern with overarching issues in favor of "special" objectives.

These developments in the fragmentation of interests further inhibit a process of rapid change. Those who are threatened by change are more likely to work hard to prevent it than are people who stand to gain from change but are less well organized than "vested interests" to bring it about. Japan is in the process of developing a more vibrant civil society, characterized in part by a proliferation of voluntaristic organizations, but this is bound to make the policy process more rather than less cumbersome and contentious.

The failure of the best and the brightest. A third pillar of the postwar political system was Japan's administrative bureaucracy. For over a century Japan's elite bureaucrats have manned key positions of state authority and power, and they possessed high morale, a sense of mission, and a reputation for competence and integrity. Bureaucrats might have been haughty and arrogant, as exemplified by the prewar expression "bureaucrats exalted, common people despised" (*kanson minpi*), but the image of the Japanese bureaucrat was one of a man of ability and dedication who had foregone opportunities for material gain in order to serve the nation.

Events in the 1990s profoundly damaged the bureaucracy's reputation and weakened bureaucratic morale. Japanese are accustomed to corruption among their politicians, but the public was stunned by revelations in the 1990s of corruption among professional bureaucrats, including elite bureaucrats in the Ministry of Finance. When it became clear in the mid-1990s that the nation's best and brightest that staffed the upper reaches of the bureaucracy were not only not above the temptations of corruption but also were responsible for policy mistakes that exacerbated Japan's economic problems, a spate of bureaucracy bashing ensued that is unprecedented in Japan's modern history.

The damage done to the bureaucracy's image of competence and integrity in the 1990s cannot be undone. Japan's elite bureaucrats will continue to be major players in the decision-making process, but they cannot regain the confidence of the public or of the political leadership that they once enjoyed. Politicians are insisting on exercising greater control over the policy process and on weakening the formal powers of the bureaucrats. The bureaucracy has been thrown on the defensive and it has no choice but to compromise with these political pressures.

The short-term consequence of this weakening of bureaucratic authority has been to create something of a policymaking vacuum. The decline in bureaucratic authority has not been accompanied by the strengthening of alternative mechanisms for formu-

lating policy. There is a dearth of think tanks, and politicians and parties have weak staff support. This situation not only complicates processes of policymaking, but appears to have reinforced public cynicism about government in general and a lack of confidence in politicians and parties.

The changing party system. The fourth pillar that supported the Japanese political system is LDP one-party dominance. This pillar collapsed in 1993 when the LDP lost power for the first time since its founding 38 years earlier in 1955. The LDP came back to power a year after losing it as part of a coalition government. But its hold on power is tenuous, and predictions about whether it will survive as a governing party or is forced back into opposition are hazardous at best. Japanese voting behavior is unprecedentedly volatile. Most Japanese support no particular political party, and even among party identifiers the intensity of support is quite weak. Social change is causing the disintegration of traditional political machines that were so important to the way individual politicians mobilized support. Japanese voters have become more like American ones in their readiness to vote against the incumbent party and incumbent politicians if they do not perform well. Whether or not the LDP succeeds in cobbling together another governing coalition after lower house elections that must be held no later than October 2000, there can be no doubt that the era of stable one-party rule in Japan is over.

The era of stable one-party rule is over

The democratic dynamic. Japanese politicians confront an uneasy but conservative electorate that is pressing diverse and often contradictory demands on the political system. Interest groups have proliferated and some of the most energetic of them are motivated by the desire to prevent major changes from occurring. The policy process has become messy and contentious, bureaucratic power has weakened, and government leaders, lacking a secure parliamentary majority, are being forced to hammer out compromises with opposition parties in important new ways.

Of the pressures for change at work, perhaps the most important is the realization among political leaders that they can only hope to hold power if they can convince the electorate that they are capable of dealing with the nation's problems. Parties that fail in this task will be replaced in power. The dynamics of democratic governance in Japan severely constrain political leaders in their policy choices, but they also push those leaders to make important policy changes.

Sustaining the U.S.–Japan Alliance

There is a fifth pillar that has provided the foundation for the Japan the world has come to know over the past half-century. This pillar—the U.S.–Japan alliance—still stands. If it were to collapse, there would be a need to fundamentally reassess the prognosis offered here for incremental, evolutionary, and fundamentally constructive change.

It goes without saying that the world that existed when the U.S.–Japan alliance was initially forged in the early postwar years is hardly the world as it is today. Japan is a rich and powerful country rather than a defeated and impoverished enemy. The Soviet Union has disintegrated, the Cold War has ended, and both the United States and Japan have full diplomatic and growing economic relations with an increasingly powerful People's Republic of China. There are serious potential threats to peace in East Asia, most notably involving Taiwan and North Korea. There are also serious, if at the moment subdued, tensions between the United States and Japan over their economic relations.

Yet, despite all the momentous political and economic changes that have occurred in the East Asian region and globally in recent years, the U.S.–Japan alliance remains a crucial factor not only for Japan itself but for the stability of the East Asian region as a whole. The United States has vital interests in seeing that it is not abandoned, nor its credibility compromised.

For nearly 30 years, the U.S.–Japan relationship has been battered by repeated and often bitterly contested trade disputes. One should not underestimate the costs that this history of trade frictions has exacted, especially in eroding trust and goodwill on both sides of the Pacific. It is even more important, however, not to exaggerate the dangers of a "trade

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war" and of a major breakdown in U.S.–Japan relations as a result of economic differences.

The American and Japanese economies—the two largest national economies in the world—have become truly intertwined and interdependent. It is virtually impossible for either Japan or the United States to damage the other without harming itself. Both countries need to guard against letting trade disputes spiral out of control, but the most serious threats to the structural soundness of the pillar of the U.S.–Japan relationship in the coming years are not likely to be generated by trade disputes. They are far more likely to result from differences and misunderstandings about regional political and security issues.

It is far more difficult to manage bilateral security relations in post-Cold War East Asia than it was within the simple and compelling framework of the Cold War. Japan cannot be confident that what it perceives as threats to its security will necessarily be perceived in similar terms by the United States. The United States, now that the Soviet threat is gone, sees the purpose of the U.S.–Japan security treaty more in terms of how the two countries can work together to insure regional security than in terms of defending Japan against military attack.

Meeting new realities. Important steps have been taken to adjust the security relationship to meet these new realities. The joint declaration on security relations that President Clinton and Prime Minister Hashimoto issued in April 1996 and the subsequent adoption of new guidelines for defense cooperation between the two countries provide a basis for expanded bilateral cooperation on regional security issues, subject to well-known and only slowly changing Japanese political constraints on the use of military force.

Effective U.S. management of its bilateral political and security relationship with Japan, however, requires more than joint declarations and good government-to-government relations at the working level. It requires far more focused attention on the political and security dimensions of the U.S.–Japan relationship by the president, secretary of state, and other top governmental and political leaders than has been the case so far. Recent events underscore the importance of this point.

President Clinton's visit to China in the summer of 1998 created apprehensions in Japan about a shift in U.S. strategy in East Asia. Even more important than the symbolism conveyed by his decision not to stop in Japan after visiting China was his statement in a joint press conference with President Jiang Zemin criticizing Japan for failing to deal more forthrightly with its economic difficulties. This created the impression in Japan that the United States viewed its "strategic partnership" with China in a more positive light, at least in terms of economic relations, than it did its alliance relationship with Japan.

In the fall of 1998 the North Korean government launched a missile that passed through Japanese air space. The realization that North Korea possessed a capability to deliver a missile to Japan that could carry a biological, chemical, or nuclear warhead greatly shocked the Japanese. So too did the relatively tepid U.S. response to North Korea's missile launch, raising questions in Japan about the credibility of American commitments to Japan's defense.

Avoiding misunderstandings and an erosion of goodwill and sustaining the viability and the credibility of the U.S.–Japan security relationship should be priority concerns of those responsible for the management of U.S. foreign policy. There is no shortage of rhetorical support among American political leaders for the idea that a strong U.S.–Japan security alliance and a deepening and broadening of American and Japanese economic ties are vitally important to secure American national interests in the East Asia of the 21st century. The challenge now is to build an appropriate strategy rooted in this important truth.

Conclusion

It is important not to underestimate the complexities of the challenges Japan faces at the turn of the century. It not only finds itself in a prolonged economic recession but it confronts a kind of "system fatigue." The four major pillars supporting the post-

A decade from now Japan will not look like the U.S., but it will be considerably different from the Japan that exists today

war system—a public consensus on national goals, the presence of large, integrative interest groups, a powerful and high prestige bureaucracy, and one-party dominance—have all weakened or crumbled, in no small part because of the success they engendered. Finding new goals, innovating new policymaking mechanisms, creating new channels of access for public influence over the policy process, and restructuring the party system present formidable challenges.

It is also important, however, not to underestimate the ability of Japanese to deal with these challenges successfully. One thread of continuity in modern Japanese history, from the opening to the West nearly 150 years ago to the present day, is a determination to succeed. The energy this produces, especially in a society that is well educated, technologically advanced, affluent, and increasingly aware of the extent of the problems it confronts, can overcome many obstacles to reform. A decade from now Japan will not look like the United States but it will be considerably different from the Japan that exists today. Assuming that its external environment remains peaceful and stable, a condition that can only be met if the U.S.–Japan alliance remains strong, Japan will emerge from its current problems a more vibrant society and even more powerful economy.

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