Week 2 - the rise and fall of the developmental state

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The assigned readings provide a brief overview of what constitutes Japan’s Political Economy. Collectively, they describe who the principal agents are, the processes in which they interact with each other and how these interactions influence the structure of the Japanese Economy. They differ in their approach and the level of which they analyse these processes of agent-structure interaction. Bai Gao takes a broad historical overview using a lens of globalization to define three phases of structural change in the Japanese economy. Similarly, Sugimoto employs a historical lens to explain the ‘iron triangle’ of policymaking. He focuses on the cleavages that emerged at various points in time between the Executive (Bureaucracy) and the Legislative (Political) branches of Government. Pempel analyzes the legislative branch of government, employing a pork-productivity dichotomy to argue that electoral defeat in 2009 of the Liberal Democratic Party (LDP) was foreordained because of its inability to resolve the contradiction between its protected (“pork”) and competitive (“productivity”) constituencies. Johnson identifies the bureaucracy as the principal agent of change and focuses on how the Ministry of Industry, Trade and Investment (MITI) shapes Japan through industrial policy and planned rationality.

To maximize space this preview is organized as such: each section covers a single article and provides a executive summary, several core ideas, keywords and a short critique of each article.

The Postwar Japanese Economy (Bai Gao)

Executive Summary: Postwar Japanese economy can be broadly categorized into four phases. Postwar recovery, high-growth, reversal and stagnation, reform versus recovery. Each phase was influenced by a set of factors, which altered the structure of the Japanese political economy and agent behavior.

Core Ideas

1. Post-war recovery: Continuity in some aspects such as bureaucrat role in resource mobilization, industrial policy and banking. Discontinuity in terms of economic structures, democratic, land reforms, shift from textiles to heavy/chemical industries.


3. reversal and stagnation: created by structural rigidity; obsolesce of developmentalism model, changing regime shift and loss of electoral hegemony and unable to deal with industrial paradigm shift to IT and globalization

4. reform versus recovery: reforms resisted by bureaucracy and society, partial implementation of reforms, reforms induce uncertainty and lack of consumers/business confidence. Limited and superficial extent of change.

Key terms

<table>
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<tr>
<th>Structural Rigidity</th>
<th>difficulty of change due to resistance from agents/interest groups within the system that prefer the existing configuration of institutions, processes and policies</th>
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<tr>
<td>Regime Shift</td>
<td>changing socio-economic conditions, alter interests and political priorities. Consequent effect on policy preferences</td>
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<tr>
<td>Neoliberal Market Reform</td>
<td>pro-market ideology reforms that stress a reduced state role. De-regulation, Privatization and downsized public service.</td>
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Critique

• Radical reforms triggered crisis of confidence in 1997/1998 overstated. Could be due to systemic/environmental factors such as Asian Financial Crisis, dot.com bust.
• unsubstantiated claim that reforms caused a surfeit of certainty which led to stagnation in the Japanese economy. Descriptive, not explanatory. Weak casuality
Collusion and Competition in the Establishment
(Yoshio Sugimoto)

Executive summary: this article describes the interaction of bureaucracy, big business and politicians that sustain the ‘Iron Triangle’, how this shapes the policy-making process and why there has been immense political difficulty in implementing reforms to the economy. Sugimoto ascribes the source of bureaucratic power, to (1) their regulatory/licensing authority, (2) amakudari and (3) administrative guidance. These facets of bureaucratic authority have been undermined by a growing cleavage in preferences that different interests groups in Japan have for developmentalist and liberal market models. This divergence in social preferences has eroded political support for the LDP and distanced it from its constituencies. Coupled with structural characteristics such as money-politics, bureaucratic sectionalism (inter-ministry competition over bureaucratic turf) and intense intra-government competition for resources (core-periphery competition between ministries and other administrative units), this creates considerable resistance towards reforms in the political economy.

Core Ideas

1. Bureaucratic Control: Sugimoto posits that bureaucrats exercise control through 3 ways. (1) Regulation allows them to include/exclude or refuse developments in areas of their jurisdiction. It allows them to shape the market structure and modify individual/firm behaviour to their preferences. (2) Amakudari provides a symbiotic connection between the ministries and firms they regulate, with positions for ministry old-boys and firms to be able to influence policy-making process. (3) Administrative guidance is the process of signalling, rewards and/or punishments to induce firms to comply with the ministry’s plans to maximize the ‘national interest’/ministry vision of ideal policy.

2. Old vs New political economy: The Old political economy consisted of a strong developmentalist focus and bureaucrat interventions in industrial policy in order to maximize speed of development and type of growth; to achieve economies of scale and levels of efficiency that would allow Japanese companies to compete effectively. The New political economy favours a system of “hands-off” liberal free-market competition with a limited role for bureaucrats, as bureaucratic planning and intervention is seen as dysfunctional and causes suboptimal economic performance.

3. Cleavages, their impact on interest groups and reforms: Interest groups have different preferences for new/old political economy. Uncompetitive, weaker industries/low-income social segments prefer developmentalist/strong bureaucrat regulation to stifle competition and safeguard their existence. Competitive, stronger industries/high-income segments prefer less bureaucratic influence, more deregulation in order for them to compete more effectively. Competing and conflicting preferences fragment and create splinters in the LDP’s support base, weakening its ability to achieve consensus on reforms. Accentuated by structural factors, this makes reforms difficult to implement across the levels of government as opposition is encountered at the policy-making level and modes of implementation are contested by interest groups.

Key Terms

| Cleavages | Divides in ideas, values and policy preferences amidst a population in a specific territory or space (question from CM: is this always locationally-specific?). |
| Interest groups | Collective organizations of individuals, who have aggregated their interests into a group, in order to maximize their influence on the policy making process. |
| FILP | Fiscal Investments and Loans Program. Scheme that channelled funds from postal savings accounts into public spending. Critical for public works spending and funding government deficit. |

Critique

- Broad overview that sacrifices depth for breadth. For instance, Koizumi’s systematic destruction of LDP factions and instituted centralized party discipline, destroyed the faction and in one fell swoop, castrated the policy zoku’s. Minimalist explanation of the effect of electoral changes. The bureaucracy’s fall from grace and public perceptions is not explained. Impact of political reforms on different levels of government and how their modes of interactions are affected is hinted at but not explained.
Executive Summary: Pempel attributes the electoral failure of the LDP in 2009, to its inability to apply its legislative power to allocate effectively between the ‘Pork’ or inefficient, uncompetitive, weak segments of its constituency and the ‘Productivity’, the efficient, competitive, stronger segments of its constituency. In an attempt to explain the lost decades and subsequent economic stagnation, Pempel uses this pork-productivity dichotomy, to trace how structural reforms, policy failures and changing socio-economic factors eventually cumulated in the LDP being ousted from power.

Core Ideas:

1. One LDP, many divergent interests: The LDP was made up of various constituent interests which were incompatible with one another. For instance, it consisted of politicians who had links with big businesses and former bureaucrats, which favoured state-led development; and politicians with strong ties to protected/uncompetitive industries such as agriculture and small businesses, which favoured subsidies and protection of certain industries. Pempel describes it as a “shotgun marriage”, between fundamentally opposed interests, which was only made possible through the productivity, income and broad-based development, which allowed made payments for both segments of the economy, fiscally sustainable. Iron triangle structure of policy-making reflected this with mutually insulated networks of economic interests. No compromise of interests that would fragment LDP’s constituents.

2. Unravelling of the shotgun marriage: Corporate globalization meant that companies became multinational, competitive in Japan and abroad. This meant that the ‘productivity’ constituent gradually became less dependent on Japan as a market and less subject to the control of bureaucrats/developmentalist objectives of national interest. However, protected ‘pork’ segments of the economy remained uncompetitive and dependent on political protection. The burst of the bubble economy sharpened the division between the two segments.

3. Reforms and the dismantling of the Iron Triangle: Electoral reforms and Hashimoto’s consolidation of the public service, effectively dismantled the Iron triangle of policy-making by removing the basis of factions and merged ministerial functions and spheres of authority. This had the effect of severing interests groups and the factions that represented them. Fragmented bureaucratic roles and areas of responsibility weakened and made it difficult to effectively formulate and implement policy. Onus of policy-making process shifted to the cabinet.

4. Pork galore, public anger and Koizumi the destroyer: Fiscal stimulus spending diverted large amounts of public funds to construction and public works programs. Ineffective and failed to stimulate productive segments of the economy. Created and facilitated the construction state. Led to dramatic increase in public debt and departure from MoF policy of fiscal conservatism. Public anger and resentment over failure of reforms to return Japan to productivity/income growth. Koizumi rides on the wave of public anger to institute economic reforms, purging his political opponents and unravelling the threads that bound the LDP to its support base of ‘pork’ constituents and special interest groups.

Key terms

| Constituents | Base of supporters/voters for politicians and their political parties. Generally politicians are able to obtain political support in exchange for protecting and advancing the interests of constituencies. Examples?
| Pork-barrelled politics | The use of public funds, monies and programs in order to win support from key constituents and certain segments of the population. Generally refers to excessive use of such inducements above and over normal public programs that are in place.
| Keynesian policies | The belief that increased government spending can help to alleviate cyclical economic downturns through policies to stimulate consumption and investment. Named after John Maynard Keynes (add a link?)

Critique

- focus on Koizumi misleading, insufficient attention paid to the reform initiatives instituted by Koizumi’s predecessors such as Obuchi, Hashimoto. Koizumi’s reforms are actually an extension of their reforms.
- Koizumi’s unique status, as a credible, reform-minded senior LDP member without factional affiliation, provided him with the capacity to undertake broad reforms.
- No explanation for the collapse of bureaucratic influence and power in the post bubble-period. Pempel argues about a regime shift but fails to elaborate how the bureaucracy changed in this regime shift, with his analysis overly focused on the legislative/politicians.
MITI and The Japanese Miracle (Chalmers Johnson)

Executive summary: Johnson's seminal piece etches out space in the body of academic literature that tries to explain Japan's rapid economic development; for a theory about the developmentalist-state, the bureaucracy's role and how it achieves its policy objectives. Johnson argues that the key, lies in Japan's model of industrial planning and how the bureaucracy oversees this process of plan rational. In this chapter, he distinguishes it from planned economies, establishes the rationale for a plan rational and discusses how MITI's bureaucrats created a developmentalist state.

Core Ideas

1. Plan Rational Economy and Industrial Policy: Johnson distinguishes Japan from command economies (communist/socialist economies) by reasoning that the Japanese model of the economy is rational not ideological, as it is concerned with the values of efficiency and effectiveness. Yet, the Japanese economy differs from pure market economies through the way state priorities have an influence in how it establishes social and economic goals. Johnson argues that Plan Rational economies are overseen by elite bureaucrats, tend to focus on an industrial policy which aims to help it achieve strategic advantages.

2. Why Industrial policy was needed?: Johnson argues that industrial policy is the reflection of economic nationalism and the need to “give priority to the [economic] interests of one’s own nation”. In order to do so, industrial rationalization had to occur, with the state interfering at the micro and macro levels of the economy, affecting industrial, firm and individual consumer behavior through its use of policy mechanisms to “produce the greatest benefits for the least cost, and then, in the interest of the nation as a whole, to cause all the enterprises of an industry to adopt these preferred procedures and technology”. It aims to control the economic structure to incentivize the investment of resources into new and productive industries.

3. MITI and the developmental state: The basis for industrial policy can be traced to the war-time need to maximize production and the experience from bureaucrats of the Ministry of Munitions, Ministry of commerce and industry. Johnson argues that industrial policy can be applied through a mix of protective measures to shield, obstruct competition and deny competitive imports, and the nurturing measures that are intended to stimulate the growth and development of industries. Through these measures, the bureaucracy gained the ability to interfere and influence the growth of strategic industries.

Key terms

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<tr>
<th>Rationality</th>
<th>Pursuing the most efficient manner of production (Pareto Optimality)</th>
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<td>Industrial Planning</td>
<td>State intervention in the economy to realize state-defined priorities and objectives.</td>
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<tr>
<td>Structural Rigidity</td>
<td>Difficulty or obstacles faced by economic actors that provides them with disincentives to change or alter existing production behaviour</td>
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Critique

- Plan Rationality Vs. Plan Ideological: how much of this is influenced by the cold war era polemic which made it difficult for academic studies on Socialist/Planned economies to be conducted. Rationality/achieving the condition of pareto optimality itself is a ideological condition. Johnson himself acknowledges the caveat that efficiency is not equal to effectiveness. What criterion of efficiency is being employed here?
- Bureaucratic dysfunctionalities, ethics and allocative efficiency: Industrial policy supposes making a value judgement between what is ideal economic development, which industrial segments are to change and create policy to effect this change. How is this process of determination ethical and legitimate, given that bureaucrats are non-elected and possess these decision-making powers that would have an effect on segments of society? Will allocative efficiency be necessarily achieved?