

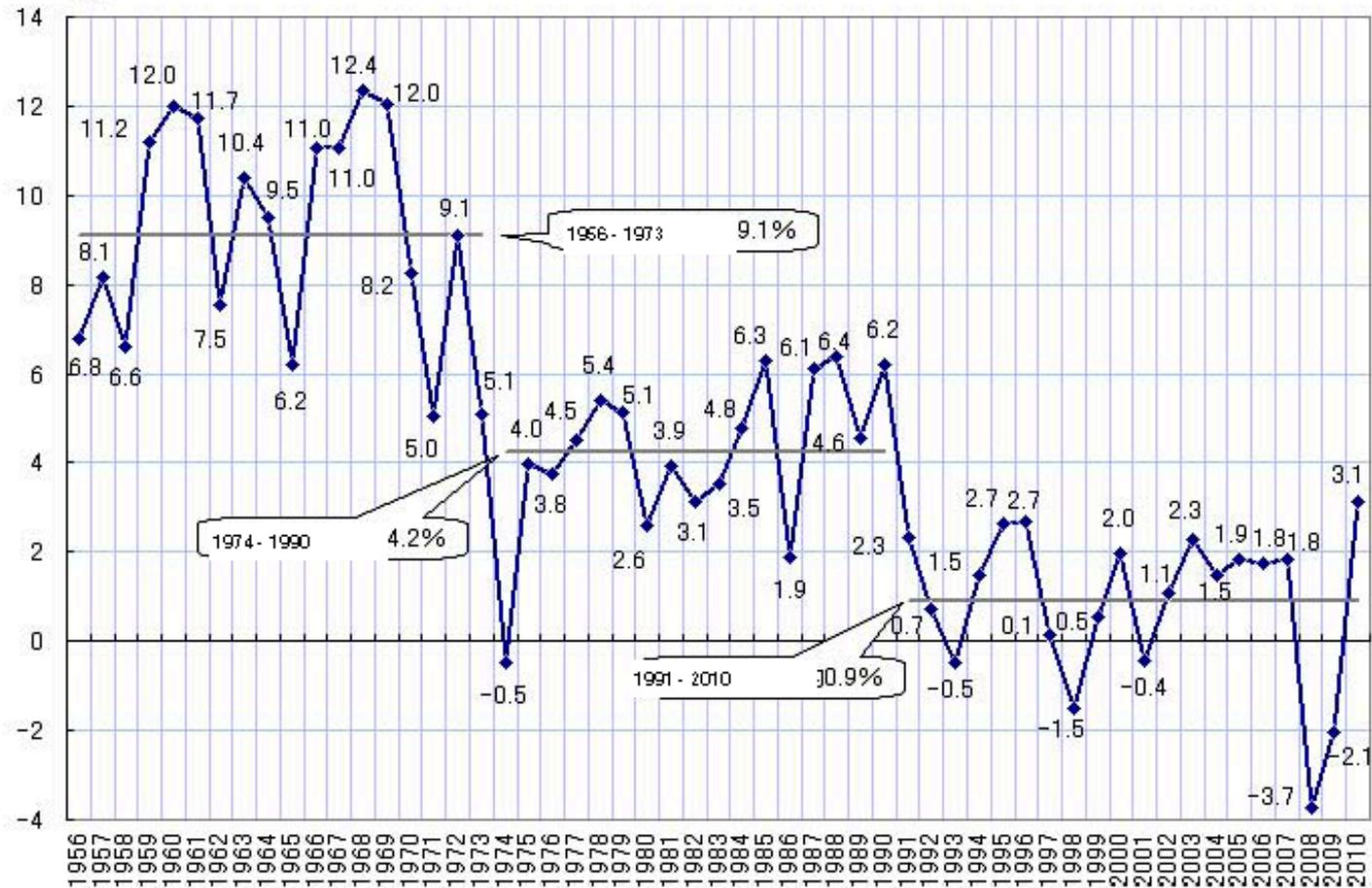
# Change and Continuity in Japanese Postwar Political Economy

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# How “market” has been embedded in postwar Japan

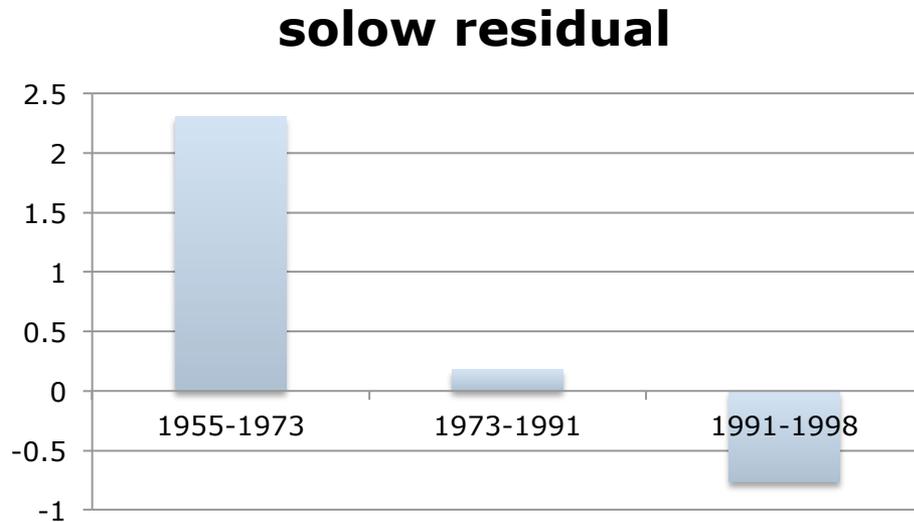
- Postwar economic growth
- Political stability
- “Embedded Liberalism” and Japan
- Crisis of Japanese embedded liberalism

# Japanese Economic Growth

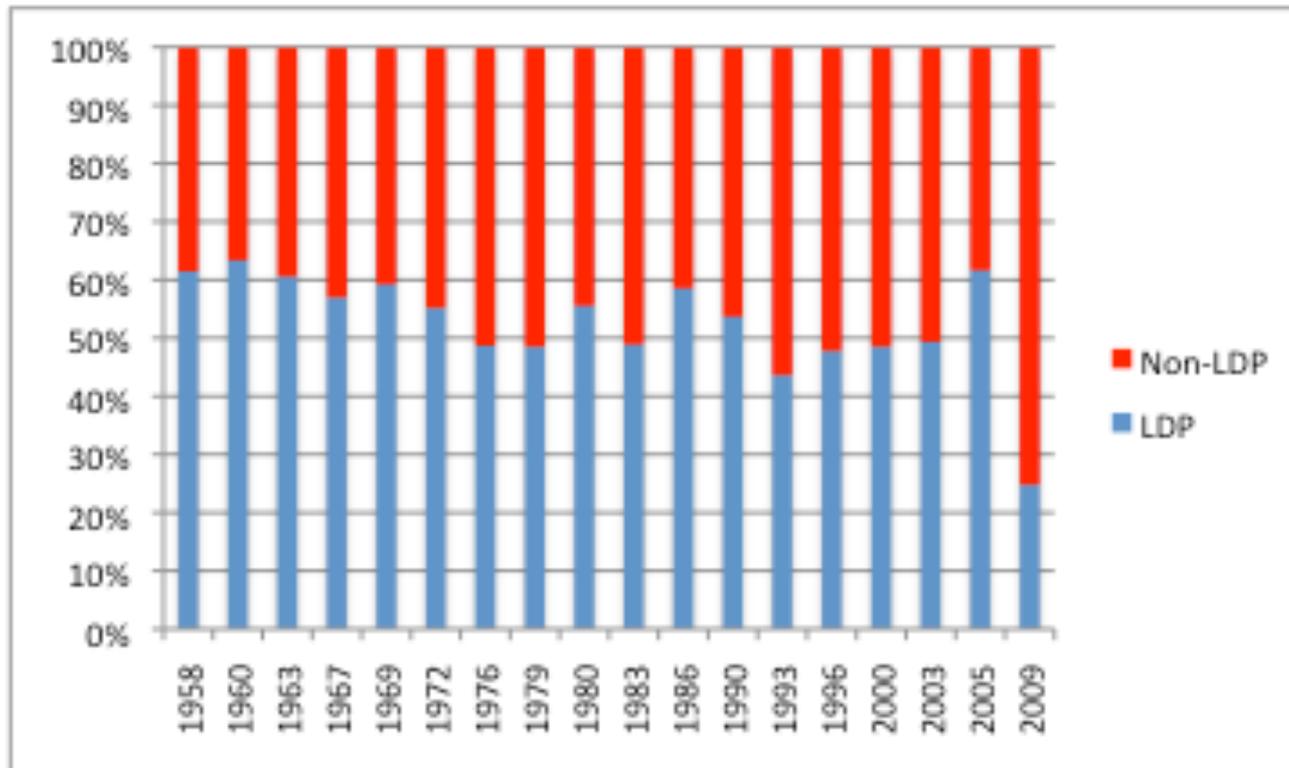


# Total Factor Productivity: Solow residual

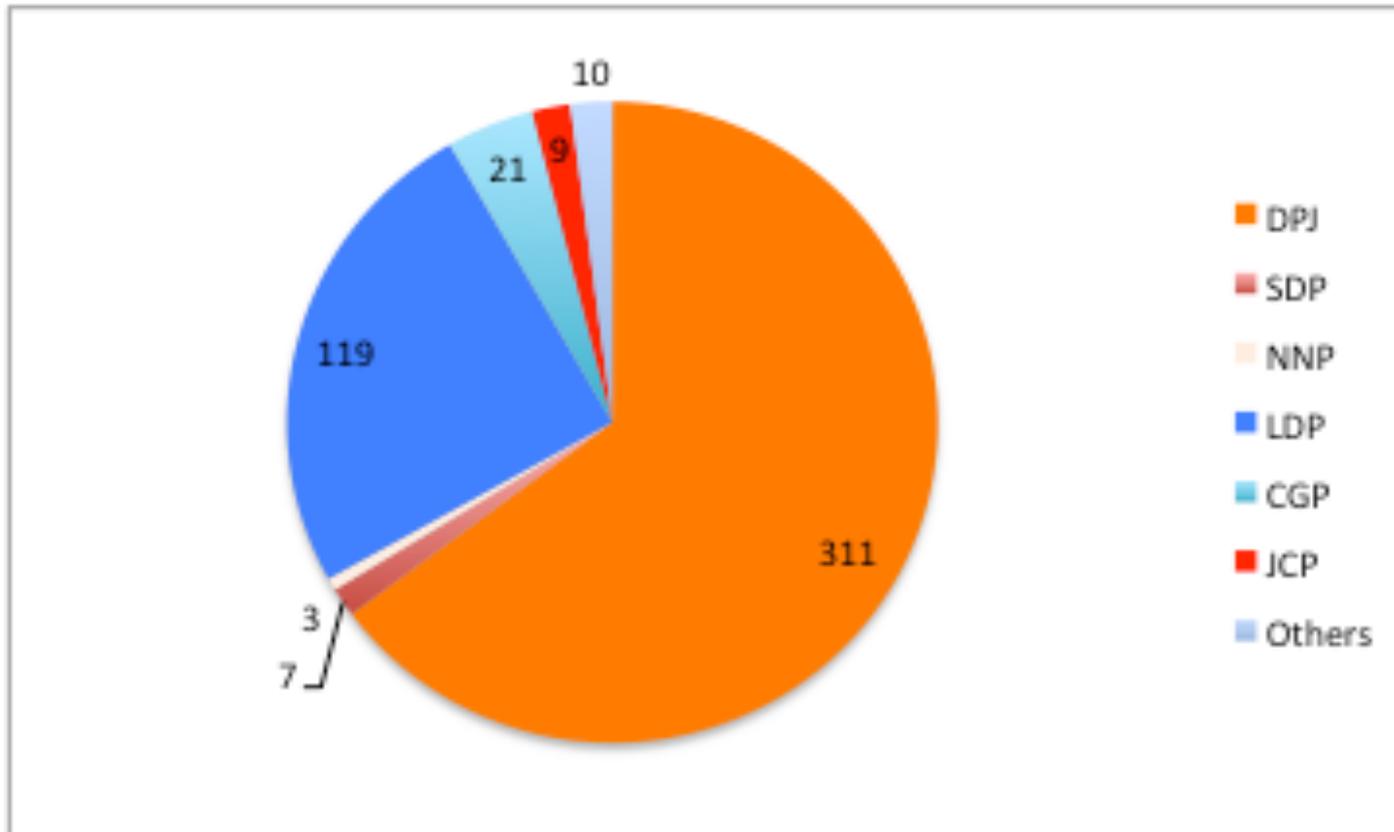
- Higher economic growth



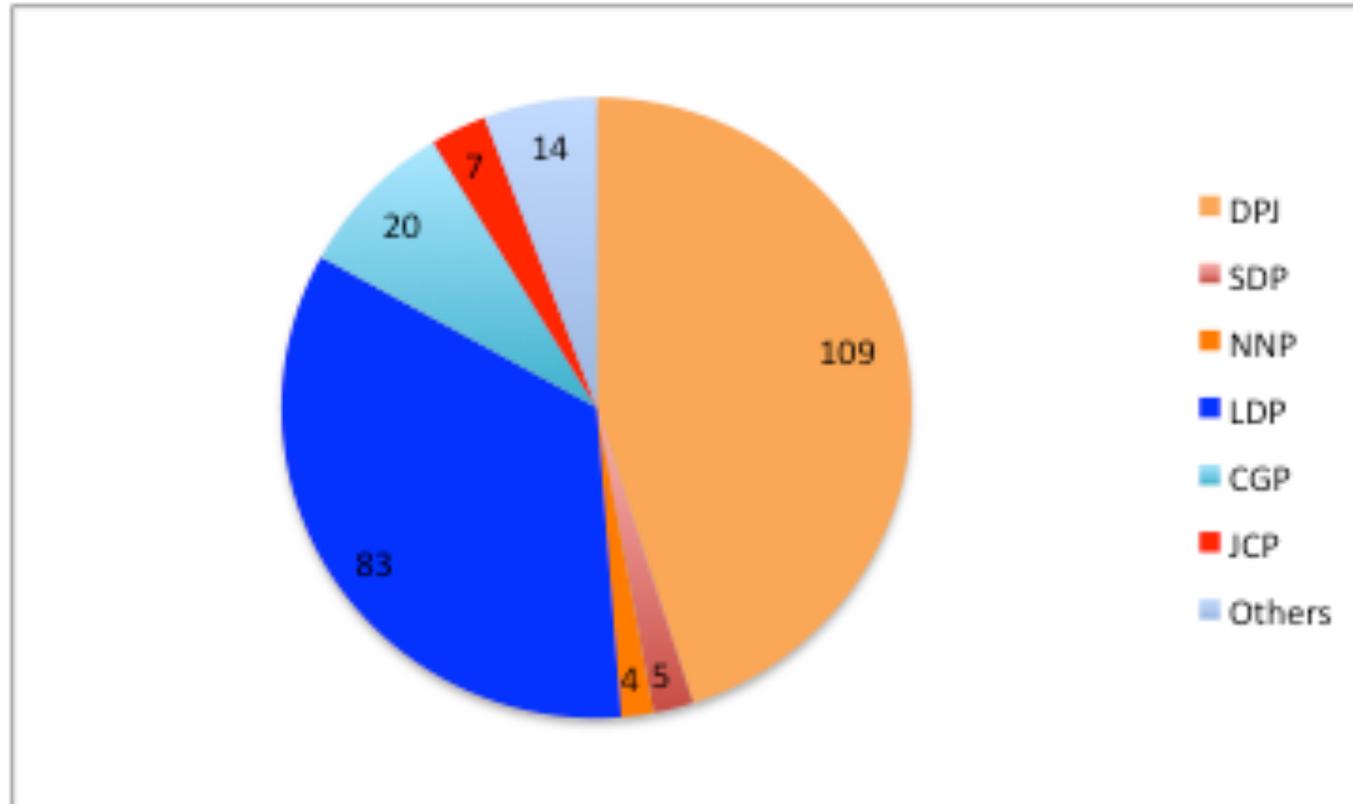
# LDP and Non-LDP shares in the House of Representatives

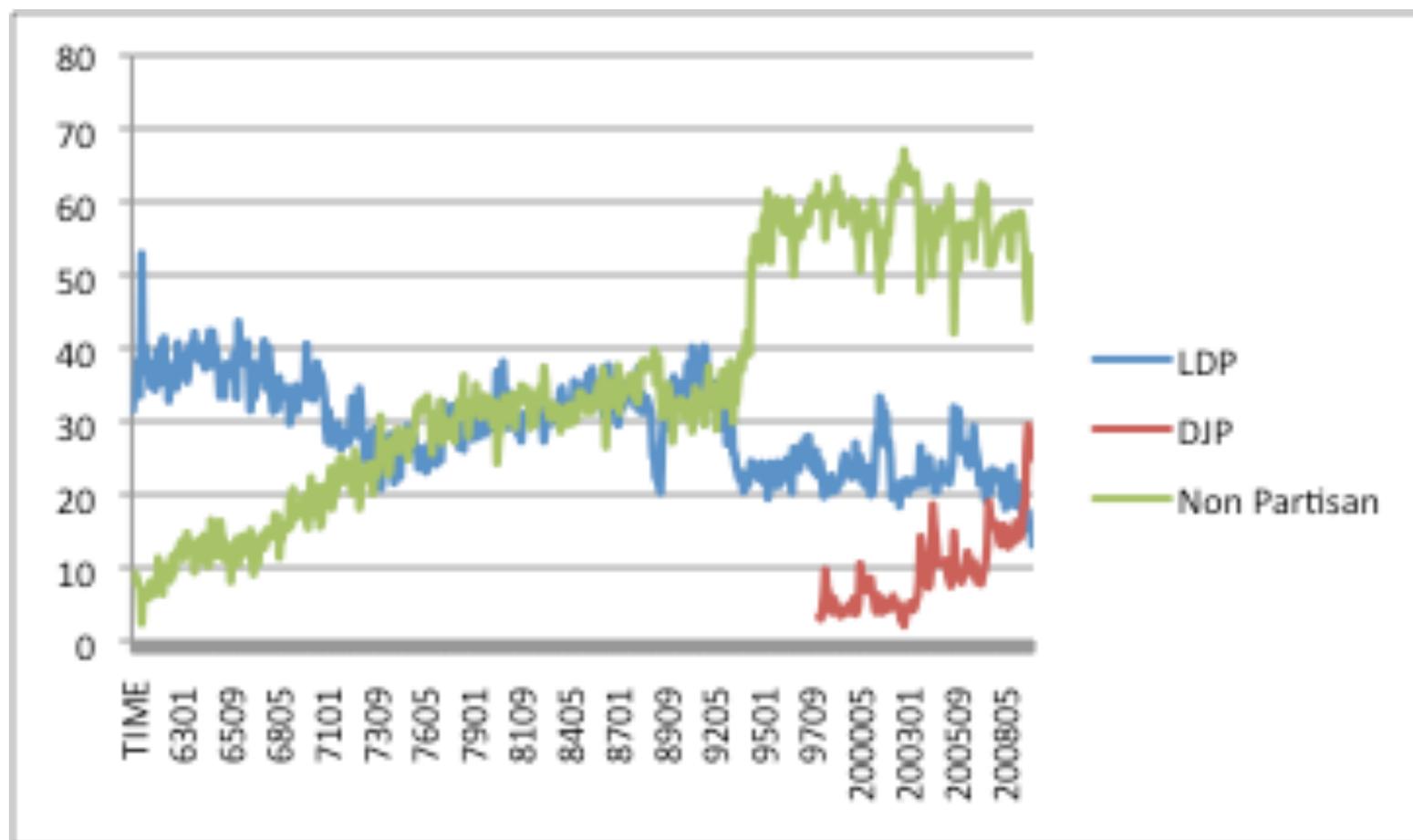


# PARTY'S SHARE IN THE HOUSE OF REPRESENTATIVES



# House of Councilors





# Debate on Postwar Japanese Economic Growth: Historical review

- Bureaucracy Regulation Thesis
  - Chalmers Johnson
  - State intervention, but economically rational
  - Market conforming industrial policy
  - Why?
  - Powerful and Smart Economic Bureaucrats?

# Economist Criticism

- Counter evidence
  - MITI's failure.
  - Eg. automobile industry
- Despite of the government intervention, effective competition exists and contributes to economic growth and market conforming nature of JPE.
- No link between government and market?

# Three issues

- How government as an institution rather than "actor" influenced Japanese political economy
- How post-WWII international political economy constrained Japan's choice of developmental path
- How Japanese governing coalition developed public policies to embed market-mechanism in political regime

# Government as an institution

- Intensive network between market and state
  - making Japan's industrial policy market-conforming by incorporating market actors' initiative or influence within the government policy.
- "compartmentalized" competition (Murakami)
  - a limited number of companies in each industry harshly competed with each other but being protected as a whole

# Institutional Economics: New Interpretation

- Industrial policy and multiple equilibrium
  - Government role
- Coordination among economic actors
  - Reducing information and transaction costs
  - Coordinated loan
  - Trust and avoidance of free riding

# Political conflicts over developmental path

- US hegemony and world market
- Japan's choice
- But entering into this IPE system required Japan to transform its domestically-oriented industrial structure to export-oriented one
- Growth and political stability

# Party Politics in the governing LDP

- Yoshida's liberalism
  - Market liberalism
  - American occupation and Yoshida's victory
- Hatoyama/Kishi policy line: Reverse course?
  - Plan orientation
  - Domestic development/social policy

# Politics matters in industrial policy formation

- two goals of MITI
  - optimal path for economic growth
  - less costly path for economic growth
- Hatoyana/Kishi
  - No losers' policy of economic growth
  - SMSEs rationalization

# Embedded liberalism

- “Embedded liberalism”
  - International trade
  - Domestic intervention
  - Growth and stability
- Keynesian welfare state
- Functional equivalent in Japan?

# Functional Equivalents of Welfare Policy

- “implicit redistribution” (M.Olson)
  - regulation and rent
  - public works

# Election system and Interest Group Politics

- Single member district
  - Median voter theorem
- Election System and LDP
  - Medium size district
  - SNTV (single nontransferable vote)
  - Personalized politics and special interest

## Inter-region coordination within the district

	Rregion 1	Region 2	Region 3
A	Agriculture	Agriculture	Agriculture
B	Public works	Public works	Public works
C	Commerce	Commerce	Commerce

## Inter-sector coordination within the district

A	Agriculture	Agriculture	Agriculture
B	Public works	Public works	Public works
C	Commerce	Commerce	Commerce

# What went wrong?

- Bubble economic boom and its burst
- End of catch-up stage
  - principal-agent relations
  - Network and moral hazard
- Expansion of politicized sphere
  - Government failure
  - Scandal and corruption
  - budget deficit

# Change and Continuity

- Politics of Reform
  - election system
  - single member district
  - Majoritarian Westminster model?
    - Single member district
    - Parliamentary cabinet system
  - divided government
    - Strong upper house

# Change and Continuity

- Globalized economic competition
- Corporate governance
  - Diversification (Miyajima)
  - corporate finance and labor management
  - Relational or Market
- Over-valued YEN