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

http://www2.ttcn.ne.jp/honkawa/
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

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<th>Region 1</th>
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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