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## »Change« Comes to Japan?

- This report assesses the background to Japan's August 30 general election, as well as the main policy options on the new government's agenda.
- The report describes how the Liberal Democratic Party's loss was rooted in poor economic management and the effects of socioeconomic change on its electoral base. Particularly in this latter respect, Japan is already a changed country.
- Moreover, the Democratic Party of Japan is embarked on reforming the decision-making institutions that have underlain policy-making throughout most of the post-war era. It has committed itself to reshaping large swaths of fiscal, energy, foreign, and other policy approaches. This report is an in-depth analysis of these recent developments.

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## 1 Introduction

This paper reviews the background and major implications of Japan's August 30, 2009, general election for the Lower House (or House of Representatives) of the Diet. The election was, in many respects, unprecedented in the country's post-war history. Most strikingly, the long-governing Liberal Democratic Party (LDP) has been decisively turned out of office. The conservative LDP had held office virtually since its foundation in 1955, spending less than a year out of power in 1993–94, when an unwieldy eight-party coalition took office and then lost its way.

The scenario this time looks very different. The recent election's winner, the Democratic Party of Japan (DPJ), has learned a lot from such hard knocks. The DPJ was founded in 1998 via a merger of several opposition parties, and has grown into Japan's second major party. Its ascent into government is widely expected to bring a major change to Japanese policy-making institutions and their outputs, bolstering their capacity to respond to a rapidly evolving society and international context.

## 2 The Backdrop to the 2009 Election

Prior to this election, the LDP held 303 of the 480 seats in the Lower House, while the DPJ had only 112. Fully 31 seats of the remainder were held by the LDP's coalition partner, the Buddhist-backed Komei Party. The total gave the LDP–Komei coalition a two-thirds majority in the Lower House and thus the ability to override any vetoes from the Upper House (or House of Councillors).<sup>1</sup> The rest of the Lower House seats were divided, in ever smaller numbers, among the minor parties, such as the Communist Party, with nine seats, the Social Democrats, with seven seats, and several others. The LDP's immense majority in the Diet was secured on September 11, 2005, when then Prime Minister Junichirō Koizumi took on elements of his own party, as well as the opposition, in the so-called »Postal Reform Election«. Before the 2005 election, the DPJ had been within striking distance of the LDP, at 177 seats versus the LDP's 236, but fell to 113 seats, while the LDP increased its number of seats to 296. That landslide result was the largest electoral majority in Japan's post-war history.

But the recent election has set a new high-water mark in Japanese electoral politics. First, the DPJ has

won an unprecedented majority, a startling recovery from 2005. Fully 308 seats went to the DPJ and a paltry 119 to the LDP. This election saw the DPJ also take a commanding 42.4 percent of the vote compared to the LDP's 26.7 percent. Compare this gap in the popular vote with the 2005 result, when the LDP and DPJ received 38 percent and 31 percent of the vote, respectively. After years of stumbles, the DPJ has undeniably arrived as a major party.

In this election, the minor parties generally saw their totals shrink or remain unchanged, with the Komei Party dropping from 31 to 21 seats, while the Communists and Social Democrats held steady at nine and seven seats, respectively. As for the rest, the People's Party took three seats, the Your Party five seats, the New Japan Party one seat, and the New Party Big Earth (a stalwart former LDP politician from Japan's northern island of Hokkaido) one seat, with unaffiliated Diet members taking six seats.

The turnout in this election was 69.28 percent of registered voters. This level of participation was even higher than the 67.5 percent that went to the polls in the 2005 election, which hitherto was the peak participation rate since the introduction of the new single-member and proportional system in 1994.

Another unprecedented outcome was the 54 women elected to the Diet. The previous high for women was 43 seats in 2005, after former Prime Minister Koizumi used »assassin« female candidates (many of them »celebrities«) against established, but rebel members of his own party, the LDP, who had defied him on postal privatisation. Koizumi's rather opportunistic and almost spur-of-the-moment use of female candidates seemed very much in keeping with past practice in male-dominated establishment Japan. After all, the country ranks an abysmal 57th in the UN's gender empowerment rankings. But in the 2009 election, the women candidates were more professional and skilled than their LDP counterparts. While they were readily and predictably depicted in sexist terms as the »princess brigade« by the media, these women are representative of the broader evolution of women's role in Japanese society and are, in turn, likely to hasten that evolution.

## 3 Strategy and Tactics

The short explanation for the electoral outcome is that the LDP finally exhausted its capacity to respond to changes in the broader social economy and external environment and to lead the country towards a new paradigm of economic growth and equity. This flexibility had been the LDP's *forte*, from its 1955 founding

<sup>1</sup> Through the July 2007 election, the DPJ has 109 seats in the 242-seat Upper House, whereas the LDP was reduced to 83 seats and the Komei Party only 20. This means that the LDP–Komei coalition could not control the Upper House.

to the collapse of the bubble economy in the early 1990s. Since then, the LDP has run short of creative policy responses to address Japan's needs. Japan has, accordingly, been stuck in a time warp for two decades: unwilling to tax itself, though rapidly ageing; geographically in rapidly growing Asia, yet reliant on America; and at an impasse between neoliberal versus porkbarrel economic policy.

Not all of Japan's problems can be blamed on the LDP, of course, and in comparative terms Japanese society remained stable and the economy held its rank among the developed countries. But adequate governance is to be expected in a developed country. And it was the LDP which held office virtually throughout Japan's two »lost decades« of the 1990s and 2000s, when economic growth largely stagnated and gross government financial debt climbed to over 170 percent of GDP (the OECD average in 2007 was 75 percent of GDP). Then, in late 2008, the »Lehman Shock« and the ensuing global financial crisis hit Japan especially hard, driving economic growth down at an annualised rate of minus 12 percent, while unemployment skyrocketed. This background and the lack of any concrete, credible programme to avoid a third lost decade would surely sow the seeds for regime change in any democracy.

The DPJ also generally made the most of its opportunity this time, presenting itself as a credible government-in-waiting and fostering the popularity of its »heavyweights« by setting up a »shadow cabinet«. The DPJ have not always been so adept and in the early 2000s were often accused of being too internally divided to craft a foreign and economic policy capable of differentiating the party seriously from the LDP. They were then easily bowled over by Koizumi, resulting in his 2005 landslide victory, when he was able to symbolise the widely popular idea of reform as the single issue of privatising the post office. The DPJ appear to have learned much from this defeat, as they smartly turned the tables in 2009 and ran a disciplined campaign. The DPJ grasped the LDP's essential weaknesses, as well as their own. They cast themselves as the vehicle of »regime change« and hammered home that slogan effectively. Late September of 2009, weeks after the election, saw Tokyo hoardings still sporting the main DPJ poster that carried the face of DPJ President Yukio Hatoyama and the »regime change« message which had become a mantra.

The DPJ were, at the same time, careful to keep their somewhat uncharismatic and wonkish leader, Hatoyama, from off-the-cuff public speaking that might have cost votes. As the main rationale for regime change, the DPJ elaborated a scheme to reduce bureaucratic power and reform the institutions of

policy-making, while also promising stronger ties to Asia (especially China). But rather than run – like Koizumi – against the public sector, the DPJ emphasised cutting waste and misallocation to increase investment in people through introducing 26,000 yen (197 euros) monthly child allowances, eliminating high school fees, expanding support for job training, and the like. The Koizumi line had, instead, sought to change policy-making by taking on bureaucrats and porkbarrel spenders and essentially shrink the role of the state, using cost-cutting to retire the bloated public debt. This neoliberal approach has, often with exaggeration, been tagged in the public debate with responsibility for Japan's expanding inter-personal and inter-regional inequities.<sup>2</sup>

For their part, the LDP also ran against the now-unpopular Koizumi's neoliberal approach. In addition to emphasising the alliance with America, they promised growth and equity, with fiscal rectitude down the road. Yet their electioneering came after they had put through three supplementary fiscal spending packages this fiscal year, with Japan's largest ever (15.4 trillion yen [114 billion euros], or 3 percent of Japan's GDP) having been announced on April 10. It included a much-ridiculed museum for manga – former Prime Minister Tarô Asô's pet project – that reminded voters of the infamous roads and bridges strewn throughout the multiple public-works packages of the late 1990s. In short, the LDP had virtually no credibility as a party able to provide new and innovative governance. The LDP was, in consequence, reduced to warning that the DPJ was unstable, likely to cause trouble with the Americans, and big-spending (an irony that escaped few observers). The LDP thus ran a generally negative campaign that sought to play on voters' concerns that an as yet untested DPJ might not be able to cope with governing the economy and foreign policy, especially in such turbulent times.

The LDP also suffered somewhat from having nearly run out the clock on their constitutional obligation to hold an election within four years of the previous 2005 Lower House election. Koizumi had won this election, as noted, in September of 2005. He then stepped down from the party leadership and position as Prime Minister on September 24, 2006.

2 For example, the 2008 OECD report »Growing Unequal? Income Distribution and Poverty in OECD Countries« shows that the poverty rate for Japan in 2003 was 15 percent, while social spending in GDP for the total population was only 19 percent. Only the United States was worse, at 17 percent relative poverty and 17 percent of GDP devoted to social spending. Compare Germany's 11 percent poverty and 29 percent social spending and France's 7.1 percent rate of poverty and 29 percent rate of social spending.

After Koizumi, there were three LDP Prime Ministers (Shinzô Abe, Yasuo Fukuda, and Tarô Asô) without the party seeking a new mandate for the Lower House. Each new Prime Minister soon fell into the morass of bad poll numbers and the LDP avoided an election, hoping for some recovery in support. The party seemed to be waiting for the second-coming of Koizumi, a theatrical performer who might be able to deflect voters' attention from the party's malaise long enough to win the general election.

After taking office in September of 2008, the Asô regime did manoeuvre as though it would seek a renewed mandate in short order. But whatever schedule it might have had was soon pulverised by the incredible ferocity of the global financial crisis. The free-fall in global demand hit exports, Japan's only growth machine, driving the capacity-utilisation rates of the auto makers into the purgatory of 50 percent levels, where they remain. The Asô regime surely hoped that the three massive supplementary budgets, laden with construction contracts and other benefits, would reflate domestic demand and the LDP's organisational base enough to squeak out a victory. But it takes months to get fiscal stimulus moved from the budget to the real economy, and there simply was not the time or scale to cope with a 40 trillion yen (350 billion euros) compression in the economy. Indeed, Japan's most recent unemployment data were released just two days before the August 30 vote and confirmed that joblessness was at a record high of 5.7 percent. This figure was the most dismal result since record-keeping started in 1953, with the outlook for over 6 percent in the near future.

Given this backdrop to the campaign, it is no surprise that, over the past year, the DPJ had much better support in the polls than the LDP. In February, the Asô cabinet's approval rating even sank into the single-digits. Closer to the timing of the vote, a mid-July poll by the Yomiuri newspaper suggested that the Asô cabinet was supported by only 18.6 percent of respondents and opposed by 72.1 percent. Moreover, the poll indicated that 25 percent of respondents believed Asô a suitable prime minister, while 45 percent believed that the DPJ's Hatoyama was the better choice. And 56 percent of respondents wanted the election held earlier than August (an unusual timing in Japanese politics), suggesting a desire to get it over with.

So, months in advance of the election, virtually all polls suggested that the LDP would lose, and quite badly. And from the August 18 official start of the campaign, the major news media conducted fairly comprehensive voter surveys that repeatedly and consistently confirmed an oncoming tsunami for the LDP

and much of what it represented. Polls taken between August 18 and 20, for example, indicated that the DPJ were on their way to a major victory. The Democrats were not only getting the vast majority of their own vote, but most of the floating vote and a thickening slice of the LDP's own declared supporters. Many of the news polls conducted between August 18 and 20 suggested that the LDP would lose about 10 percent of its own support to the DPJ. Then a Kyodo News survey, conducted a few days later, indicated that the LDP might lose fully one-quarter of its own supporters. It appeared as if the oft-spoken worry that the DPJ was simply not competent was subsiding in favour of the idea that regime change was legitimate and, if a disaster, could, in any event, be partially reversed in the Upper House polls, slated for June 2010. According to exit polls taken on polling day, the LDP did indeed lose about 30 percent of its own declared supporters to the DPJ.

At the tactical, organisational level, where the business of elections happens, the LDP faced perhaps an even greater challenge. The LDP is a catch-all party, meaning that it downplays ideology in favour of attracting diverse perspectives; but it also has a strong bias towards a rural and conservative organisational base. This bias is rooted in the history of an electoral system of multi-member districts and a rapid industrialisation/urbanisation that left rural constituencies with disproportionate voting power. Once a powerful electoral fortress, the LDP's rural base was a spent force by this election, worn down by the combined effects of rural depopulation, ageing, and the anti-redistributive agenda of the Koizumi years. And the LDP failed to compensate for this hollowing-out by innovating policy and practice to keep abreast of the evolving social economy and develop newer organisational supports.

One of the most astute observers of Japanese politics, Columbia University professor Gerald Curtis, mused in the September 15 *Nikkei Business Online* that the twilight of LDP politics resembled the eclipse of machine politics in American cities. Urban machine politics was rooted in tight-knit immigrant communities, analogous to the farmer, small-business, and other organisations that were the foundation stones of the LDP's vote. In American cities, as in Japan, interest groups at the base of the political machines got tangible benefits for their support, and the politicians got themselves elected.

However, America's machine politics came apart in the 1960s as people moved in from the suburbs and eroded its base of ethnic enclaves. The LDP's local base has been even more devastated by a host of unfavourable trends. For example, the drive to amalga-

mate local governments has reduced Japan's rural communities from 3,232 (670 cities, 1,994 towns, and 568 villages) a decade ago to 1,774 (783 cities, 800 towns, and 191 villages) at present. Curtis notes that this massive institutional change has uprooted the very grassroots of Japanese democracy. These local communities and their local representatives formed a political order that is disappearing. The LDP seemed unable to apprehend those facts, as well as see how successful the DPJ was in siphoning off much of the local mobilisation that remained.

#### 4 The Centrality of Institutional Change

Whenever one discusses change in Japan, two culturalist stereotypes inevitably make their entrance. The first is rather cynical about power in Japan, as well as the capacity to comment on it. It asserts that there is never any real change in Japan, only the appearance of it, as if power and power relations elsewhere were not deeply contested. The second stereotype is a little more positive. It argues that change happens suddenly, after a long period in which institutions have become ineffective in the face of new imperatives. The Meiji Revolution of 1868 and the reforms during the occupation period following Japan's defeat in World War II are usually brought out as evidence of the latter.

If there is any truth in either of these images, it is in this latter, »big bang« notion's implicit claim that institutions matter. Whether this election heralds as much »change« as promised by the DPJ remains to be seen. But it was an election centred on institutional reform, and this remains the case in the aftermath.

Hence, one of the most important items to keep our eyes on in Japan is the new Hatoyama government's<sup>3</sup> ongoing organisational changes and how they play out. Indeed, one of the main points that distinguished the LDP and DPJ election campaigns were proposals for the governance of policy-making. The LDP was, almost by default, committed to the status quo, which features a multiplicity of party and government venues for the formulation of economic policies. The DPJ, on the other hand, offered thoroughgoing reform of how and where decisions are made. Let us look at why the DPJ was so adamant concerning the need for institutional change.

The Japanese bureaucracy is perhaps not as dominant as many suggest, but it certainly has a variety of means for influencing policy and acting on behalf of business and other interests represented by the various ministries and agencies. Perhaps most striking among these influential bureaucratic institutions is the administrative vice-ministers' council. For 123 years (!) it has been established practice in Japan for bureaucratic mandarins to meet in this council and smooth over inter-agency differences before cabinet meetings. The vice-ministers thereby largely *shape* the policy-making agenda of the cabinet.

Backbench politicians of the governing party also have powerful institutions. For example, the »Policy Affairs Research Council« (PARC) of the LDP allowed ordinary party members to group in policy committees and shape the leadership's agenda. The PARC is the environment in which the »*zoku gi'in*«, or »policy tribes« of LDP members representing road builders and the like, came together to hammer out policy agreements. The PARC acted as a »shadow cabinet« and clearly inhibited the party executive from taking independent action. It is perhaps best seen as a host of veto points comparable to the United States Congress.<sup>4</sup>

In short, there was a parallel policy-making apparatus alongside the cabinet and other agencies controlled by the prime minister. This parallel apparatus has unduly undermined the power of the executive and offered too many venues for political pressures to stymie needed reforms. Though many observers are quick to ascribe the inability to reform in a lot of areas to »Japanese culture«, it is probably this profusion of access points that is the root of the problem. This is similar to the United States, where one finds an unparalleled buffet of access and veto points in a highly decentralised system of governance (including the executive, the legislature, and the Supreme Court or judiciary). The American system's openness to well-funded opposition to reform is clearly a major – perhaps *the* major – reason the Obama regime is having such difficulty achieving health care reform, a sustainable energy policy, and other promised changes. Japan and the United States resemble one another in this respect. They both afford ample opportunity for vested interests to interfere in the policy-making process and thwart longstanding reform objectives.

The LDP itself has long tried to make effective reforms to this nest of interests. For example, the

3 For a list of the members of the new Hatoyama cabinet, see [http://www.kantei.go.jp/foreign/hatoyama/meibo/daijin/index\\_e.html](http://www.kantei.go.jp/foreign/hatoyama/meibo/daijin/index_e.html).

4 On the PARC, see Masatsugu Yoshioka, »Is Japanese Politics ›Un-Westminster?: Examining the Role of the PARC«, Discussion Paper 3, 14 June 2007: <http://www.japanesestudies.org.uk/discussionpapers/2007/Yoshioka.html>



Ryūtarō Hashimoto administration of the mid-1990s introduced a bevy of reforms that the Koizumi government was later able to use (not to mention, take credit for). These reforms were aimed at centralising executive decision-making powers, but they were clearly insufficient to overcome the parallel decision-making bodies. And after Koizumi, the momentum for any serious reform was lost. One outcome of this election is thus to shift policy-making reform, away from renovating the LDP's existing apparatus, with all the compromises that entails, towards something more in the order of a political »reboot«.

The DPJ campaign promises naturally centred on institutional changes to overcome the long-lamented power of the bureaucracy. As Hatoyama put it, the DPJ will »create a new Japan, with politician-led policies«. One of the changes to this end was the above-noted abolition of the administrative vice-ministers' council, its 123-year tradition and all. Another and probably more significant reform, over the long haul, is the creation of a »National Strategy Bureau«. The bureau is intended to streamline policy-making, as well as to give elected politicians the upper hand in relation to the bureaucracy, especially by reducing reliance on the latter's policy recommendations. The Bureau is, as of this writing, institutionalised as an »office«<sup>5</sup> under Naoto Kan. He is a former leader of the DPJ and still widely respected for exposing, as Minister for Health, the health bureaucracy's mid-1990s cover-up of HIV-tainted blood products.<sup>6</sup> Moreover, Kan is deputy prime minister, as well as chief of the DPJ's Policy Research Committee (comparable to the LDP's PARC). In short, these specific institutional changes to restrict veto points will be supervised by a veteran politician who is deeply committed to them and has the positional authority to champion them. While that does not guarantee success, it certainly adds to the potential for achieving something that resembles success.

A further major institutional change is to organise the cabinet in committees dedicated to specific areas of policy. These committees are meant to achieve a functional replacement for the vice-ministers' council's role in coordinating policy across ministries and agencies. The first of the committees are budget and environment, reflecting the importance that the new government attributes to these issue areas.

## 5 Buried Treasure in the Budget?

The budget is an area with considerable conflict potential. Fiscal policy per se was not, however, a major theme in the election campaign. Both parties seemed almost in tacit agreement to avoid directly discussing the gargantuan – 800 trillion yen (6.06 trillion euros), or 170 percent of GDP – public debt and how to slow its growth and then begin to shrink it. To do otherwise would have entailed talking a lot about tax increases, certainly more than the LDP's projection of hiking the consumption tax (a kind of value-added tax) several years hence. The DPJ, for its part, committed itself to keeping the consumption tax at its present (low) rate of 5 percent and using the revenues to fund pensions. But even before the election campaign began, the bureaucracy and its client interests sought to declare that the budget was largely determined for this year and therefore should be proceeded with, as is. Their stance was that the process was beyond the stages at which ministries and agencies make their budgetary requests and the budget agencies go through them. But this assertion seemed a hasty and unwise effort to draw a line in the sand, as the budget is the most important document that a government produces. For a new government to be elected and then not to seek to redraft the budget – as far as is possible, given time constraints – would be simply unthinkable.

Moreover, the DPJ's spending promises have been estimated at roughly 7 trillion yen (5.3 billion euros) in the 2010 fiscal year and about 17 trillion yen (12.8 billion euros) over the coming four years. But revenue projections for the general budget are already gloomy, with 2010 fiscal revenues threatening to become more dependent on debt finance than on taxes per se. Hence, the DJP has committed itself to finding new fiscal resources from waste and proverbial pots of money (or »buried treasure«, in Japanese) in the so-called »special accounts« and elsewhere. In the election campaign, the DPJ argued that it could unearth 1.3 trillion yen (10 billion euros) through scrapping wasteful construction projects, 1.1 trillion yen (8.3 billion euros) by cutting personnel costs, and 6.1 trillion yen (46 billion euros) by slashing expenditures on quasi-governmental organisations, which are a common source of lucrative employment for bureaucrats »descending from heaven«, that is, retiring from senior positions.<sup>7</sup> To realise these fiscal reforms, the Hatoyama administration plans to have the Na-

5 Making the proposed Bureau a duly recognised state agency requires legal changes that are to be put before the Diet.

6 At the time, he was a member of the now-defunct »New Party Harbinger« and Health Minister in an LDP-led cabinet.

7 It is common for senior bureaucrats to retire in late middle-age to well-paid positions in private-sector as well as quasi-governmental agencies in their respective ministries' regulatory jurisdiction.

tional Strategy Bureau draft long-range fiscal strategy, seeking effectiveness through smarter spending and efficiencies through such means as introducing multi-year budgets.<sup>8</sup> In addition, a new »Administrative Reform Council«, nominally chaired by Prime Minister Hatoyama and managed by Yoshito Sengoku, will try to root out waste. Sengoku is a former DPJ policy chief and his appointment is as Minister of Administrative Reform, so presumably some treasure will be discovered.

As to the scope for finding treasure, it bears noting that Japan has 21 special accounts, totalling 169 trillion yen (1.23 trillion euros), in addition to the 88.5 trillion yen (667 billion euros) scale of the general budget. The special accounts are funded through designated tax revenues, fees, and other sources and are devoted to such specific purposes as energy projects, road building, airport maintenance, assistance for livestock farmers, and the like. The accounts have long been a focus of criticism for those desiring a more streamlined fiscal process, but are of course jealously guarded by the individual ministries and agencies that control them. The latter argue that these accounts are used for critical purposes that might not be reliably funded out of the general budget. There is, no doubt, a fair bit of truth in that claim, and special accounts and quasi-governmental organisations are hardly unique to Japan. But the size of Japan's special accounts, coupled with the institutionalised bias towards spending on things (as opposed to investing in people), does suggest that there may indeed be considerable latitude for reform.

As of this writing, the DPJ has announced a freeze on elements of spending in the supplementary budgets – that is, those aimed at stimulating the economy – for the current fiscal year and has opened its new agencies for reshaping the fiscal process. The party still has to staff these offices, as well as work out a new *modus vivendi* with the existing bureaucratic organs, especially the Ministry of Finance (MOF). And all this has to be done »on the run«, so to speak, as the fiscal outline for the 2010 budget (the fiscal year begins on April 1) and plans for related reforms need to be drafted by early November. On top of that, the budget itself must be determined by year's end in order to make it possible to launch the child-support payments with the new fiscal year.

8 This is a very timely idea for the purpose of reducing the incentives for agencies to indulge in use-it-or-lose-it spending, which is common near the end of the fiscal year. The Bureau also aims to eliminate budget ceilings on spending categories, which may lead to more flexibility in reallocating public finance to new areas and restricting the flow to categories whose need has diminished.

Such unavoidable haste may very well force compromises that dilute reform to a light rain on the rocks of the extant institutional structure. On the other hand, the DPJ's strong mandate<sup>9</sup> and the press of an expected worsening in the economy may provide an enduring momentum for historic reform.

## 6 Greening the Economy

Another policy imperative of the Hatoyama government is green growth. We have seen that, in addition to the budget, one of the first two cabinet commitments is devoted to the environment and energy. In tandem with that institutional change, Hatoyama has repeatedly reaffirmed the party's election commitment to slash Japan's greenhouse gas emissions by 25 percent by 2020, relative to 1990 levels. Hatoyama formalised this target on September 22, in New York, by announcing it to the United Nations' first ever formal meeting devoted specifically to climate change. Hatoyama's statement is, in fact, the strongest and clearest policy commitment of the new government. It is also a major break with prior policy, which appears likely to help reshape policy-making in general. As in relation to budget policy, the DPJ seems ready to use energy and environmental policy to transform policy-making institutions, as well as relations between elected politicians and some of the most powerful elements of the bureaucracy and business community.

At the international level, the attentive public's response to Hatoyama's commitment has been ecstatic. The Asô administration's June 10 commitment to a virtually meaningless cut of 15 percent by 2020 (versus 2005 levels) was widely ridiculed, but the Hatoyama commitment has positioned Japan as a significant player on the global stage. Danish Climate Minister Connie Hedegaard, who will chair the December 7–18 UN Climate Change Conference in Copenhagen, perhaps summed it up best when she declared that »[f]or a long time, everybody has been waiting for everybody else to move ... the strong message from Japan is exactly what is needed«. Japan's new leadership is acting at an especially critical time for the global community, as vested interests, such as the coal lobby in America, threaten to leave that country and the world rudderless at a point at which an effective post-Kyoto agreement is desperately needed.

9 A poll conducted by Japan's leading economic newspaper *Nikkei Shinbun*, released on September 18, showed that the Hatoyama cabinet had a support rating of 75 percent, second only to the 80 percent support Koizumi's first cabinet received at its inauguration in April of 2001.

By contrast, Ministry of Economy, Trade and Industry (METI) bureaucrats and business, along with their allies in academe and the press, strongly opposed the DPJ emissions targets during the campaign, predicting dire economic consequences. They continue to do so. The central thrust of their criticism is that Japanese companies have already invested hugely in efficiency and lower emissions, and would thus be unfairly penalised by higher targets. These claims lack compelling evidence on several fronts, and it was surprising to see the METI bureaucracy behave in so partisan a fashion. Japanese firms slowed their efficiency and other clean investments in the 1990s as they fell into the long balance-sheet recession and deleveraging that followed the land- and stock-price bubble. Japan's energy efficiency, per capita carbon emissions, and other indices are certainly among the best in the big OECD countries, but they are not keeping pace with leaders, such as Germany. And since the Japanese economy has been growing so slowly since 1990, with the population flattening out and now shrinking, it seems odd that Japan could not easily achieve its relatively light emissions targets under the Kyoto agreement from 1997. Japan is required to cut 6 percent by 2012 in comparison to its 1990 emissions levels, but by 2007 Japan's emissions had grown by 9.2 percent.

The main problem hitherto has been the LDP's emphasis on making moral suasion of the public the centre of public policy. Hectoring the public seems less effective than adopting the kinds of targets and rules for industry that made Japan an environmental leader during the 1970s and 1980s. But Japan's monopolistic utilities and carbon-intensive firms – steel, cement, and the like – dominate corporate Japan's peak business associations, particularly the Japan Business Federation, Keidanren. These interests largely controlled the LDP's energy and environmental policies. In consequence, the business community was largely left to voluntary programmes and self-regulation, a recipe for tardiness.

The fight against the DPJ's new emissions targets continues, with the peak business associations leading the criticism. On the central point of whether the proposed emissions cuts are too onerous, few opponents are willing to recognise that the EU, in its entirety, stands ready to cut emissions by 20 percent by 2020 (relative to 1990 levels) and will increase that to 30 percent if there is international cooperation. A similar silence dominates over the fact that Germany aims to double that cut to 40 percent by 2020, and has already cut its emissions by about 21 percent, relative to 1990 levels.

But the DPJ and Japanese reformists are well aware that Germany and other countries have had stunning successes in using public policy, especially the feed-in tariff, to cut their emissions and build robust renewable sectors. That is why the DPJ's election manifesto promised a comprehensive feed-in tariff for all renewable energy sources. A »comprehensive« feed-in tariff means one that includes wind, biomass, geothermal, marine, and other sources. Japan has a good deal of promising technology and potential resources in all these areas, but has hitherto encouraged them inadequately on the policy side.

Feed-in tariffs are, indeed, enormously important devices for supporting the uptake of renewable energy technology through subsidising household and other production for the electricity grid. The tariff pays an increment above the base price of electricity to foster a stable, long-term market for renewable power and thus accelerate technological improvement and its dissemination. The METI, in fact, drafted a feed-in tariff programme that is to take effect on November 1 of this year. However, in sharp contrast to the DPJ commitment, the METI scheme is essentially limited to solar energy, a field that has been nurtured by METI (and its predecessor MITI) policy support. Allowing the feed-in tariff to go ahead as it would be to allow vested interests in the bureaucracy and the energy sector to retain control over policy-making in this strategic area.

It very much bears watching how the DPJ will approach reform in this area, given the influence of electrical utility trade unions at the party's base. Accelerating green growth with proven public policy has the potential to revitalise local communities and bolster domestic demand, especially by displacing increasingly expensive energy imports. It can also foster sustainable and lucrative export markets. Japan already has some of the world's most advanced technology in this area, and it has ample capacity for further innovation. What have been lacking hitherto are the robust policy mechanisms to accelerate product diffusion and innovation. Done right, the DPJ reforms in this critical area could foster an expanding base in emergent industries and their employment, as well as provide a burgeoning source of revenues to help deal with the debt problem.

## 7 »Fraternising« with Asia

Energy and environmental policy might also afford Japan a more secure bridge to the rapidly growing Asian region. Indeed, green policy seems likely to become one means of realising Hatoyama's foreign pol-

icy of a »fraternal revolution« in relations with Asia. The region's economies, especially China, are known for their voracious energy consumption and mounting emissions of greenhouse gases, but they are also quickly greening.<sup>10</sup> Moreover, smoothing disputes over developing potential fossil-fuel resources in the East China Sea was a major commitment raised during Hatoyama's September 22 meeting with Chinese President Hu Jintao in New York. Several years ago, the tensions over these potential resources seemed likely to become a major problem, but an energy revolution may also greatly alleviate the problem, as well as afford many avenues for sustainable growth.

The Hatoyama concept of fostering fraternity is borrowed from Count Richard Coudenhove-Kalergi, an Austrian diplomat from the interwar years in Europe and one of the forerunners of the European Union.<sup>11</sup> Hatoyama drew on Coudenhove-Kalergi's theme of bonding a diverse community, comprising diverse values and languages, and has for some time been proposing it as a policy rubric for mending Japan's often fraught relations with Asia. Hatoyama's much-derided Japanese essay on »My Political Philosophy« (carried in English by Kyodo News and other agencies<sup>12</sup>) details his »fraternal revolution« and specifically calls for regional currency integration in order to draw the Asian economies closer and reduce their dependence on the United States and the US dollar. This move towards monetary union has, in fact, been a major goal of influential monetary policy thinkers in Japan, such as former Ministry of Finance international finance chief Eisuke Sakakibara (a policy advisor to the DPJ). Other avenues that might help to bolster ties include expanding intra-regional trade, as opposed to relying on the US market. How the DPJ fleshes out »fraternity« from now on is one more key area which should be monitored.

## 8 Whither »Market Fundamentalism«?

When Hatoyama's essay on fraternity was read by the overseas investment community, his assertion that

market-led globalism has damaged local communities, the environment, and other essential assets added to the consternation and debate about DPJ economic policy. Many observers, both within and outside Japan, remain concerned that the DPJ will stray far from the neoliberal line taken during the 2001–2006 Koizumi years. But questions about market fundamentalism are prominent in many countries, as people are rightly concerned about outsourcing, environmental problems, and other negative externalities from globalisation with minimal regulation. Indeed, the lack of sufficient regulation of Wall Street's derivatives nearly put the global economy into a depression and – according to the IMF – has cost 11.9 trillion US dollars (8.1 trillion euros) as of mid-2009.

Moreover, the real shortcomings of the Koizumi years perhaps need more attention. In economic policy-making, the neoliberal line produced a growth strategy that largely used low interest rates to foster an export-led recovery. Zero interest rates had already been adopted in order to deal with Japan's post-bubble dilemmas, especially deflation, but they were also useful in lowering exporters' costs in overseas markets. A further benefit to exporters was the use of deregulation and other policies to foster lower and more flexible wages on the home front. This policy line was also contractionary for the home market, since domestic consumers received reduced wage and interest incomes. The result was an economy ever more reliant on overseas markets, and one that found itself exporting into an unsustainable bubble. As the bubbles of over-consumption in America and over-production in China collapsed, so did Japan's exports.

Those who emphasise markets argue that Japan's only hope for future growth lies in more extensive deregulation that frees up competition, foreign investment and other positive developments in the service sector, which is woefully inefficient in Japan. To some extent these arguments are correct, as increased foreign participation may help spur innovation. Foreign direct investment often involves the most productive foreign firms bringing in the most innovative business practices and products. Some areas of Japan's service sector clearly need a range of new policies to foster innovation and the other kinds of development that lead to robust growth. That revitalisation should be encouraged by smart policies that include deregulation has, in fact, long been part of the DPJ's core policy.

But the continuing global crisis has painfully reminded attentive observers, especially governments and most opposition parties, that markets require the state's presence in order to function. The DPJ's current

10 As the China Greentech Initiative reports, China's green market appears likely to be 15 percent of its GDP by 2013: <http://www.ukmediacentre.pwc.com/Content/Detail.asp?ReleaseID=3367&NewsAreaID=2>

11 Coudenhove-Kalergi was born in Tokyo in 1894, lived in Japan for some years, and had a Japanese wife. These reasons, in addition to his ideas, would appear to account for his being better known in Japan than in Europe.

12 The document is also available in English and Korean translations at Hatoyama's website: <http://www.hatoyama.gr.jp/masscomm/090810.html>

policy would appear to reflect this kind of policy learning. Hence the increased emphasis on education and training and other policies that are the keystones of a robust economy. These inputs might imply a larger role for the public sector than is generally the case in Anglo-American countries. But they would not raise eyebrows in the EU. Japan is moving from a period in which investment in people was not keeping pace with such socio-economic changes as the erosion of the role of the extended family and the firm. As with other countries in the East Asian region, Japan is now seeking to reform its unduly export-dependent political economy, while maintaining competitiveness and social cohesion, as well as broadening regional ties. The extent to which the DPJ succeeds in this massive undertaking will certainly bear watching.

## 9 The Near-Term Challenges

In late September 2009, the DPJ is in the midst of appointing staff to the various agencies and working out power relations in fiscal, energy, foreign, and other

policy areas. But its budgetary policies need to be largely worked out by mid-October in order to shape the 2010 fiscal framework. It is also coming under escalating pressure from vested interests in Japan, the United States, and elsewhere to make as few changes as possible in economic and foreign policy. In particular, the policy of strengthening ties to the East Asian region is eliciting increasingly critical comment. The DPJ will have to clarify its approach in short order or risk having it misrepresented by others, both in Japan and overseas. It will also find itself, in October, confronting an opposition LDP in the Diet under the leadership of 64-year old Sadakazu Taniguchi, a 26-year veteran politician and former Finance Minister. With an election for the Upper House of the Diet slated for mid-2010, the focus will be on whether the DPJ is governing towards strong and sustainable growth and regional stability, or a potentially worse performance than its predecessors. In a global order in which influence seems at times not merely shifting, but tumbling towards Asia, Japan's fiscal, monetary, and other policies have a massive and rapidly expanding importance.



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