

CHAPTER 1

Why Study Japanese Political Economy?

INTRODUCTION

Japan limped into the twenty-first century with an economy in deep malaise. Following the collapse of the Tokyo stock and real estate markets that began in 1990, the Japanese economy failed to regain its stride, languishing at near-zero growth for a decade and a half. Saddled with a large fiscal deficit, the government was hard pressed to stimulate the economy in the wake of the 2008–2009 financial tsunami originating in New York.¹ The prolonged slump that had been called “Japan’s lost decade” began to look more like a chronic affliction.

Despite appearances, Japan is not an economic has-been on its last legs but a country in the throes of a transformation from a corrupt, managed economy to an economy shaped by a more open and scrappier political process. Japan’s political system is healthier than ever before, though it will be tested heavily by new global pressures, rising inequality, and a rapidly aging population. This book seeks to explain what happened to create Japan’s new political economy, how it matters, and what it means for Japan’s future.

Japan’s twenty-first-century metamorphosis into a “normal democracy” has not gripped the attention of the West as did its earlier phase as a voracious conqueror of export markets seemingly on the verge of global economic dominance. The subject of hysterical movies, xenophobic rhetoric, and countless university courses, the once-defeated Japan had turned the tables and was now the Godzilla invading American shores.² In 1988 a group of U.S. congressmen, protesting what they felt were Japan’s unfair trading practices, smashed a Toshiba boom box with sledgehammers on the steps of the Capitol. Historian Paul Kennedy declared that Japan was poised to replace the United States as the world’s leading economy.³

¹Japan’s debt, at 170 percent of GDP in January 2009, was the largest among industrialized countries.

²Crichton 1992; Burstein 1988; Friedman and LeBard 1991; Vogel 1979; Choate 1990; von Wolfereen 1990; Prestowitz 1988; Fallows 1989.

³Kennedy 1989.

Japan deserves more attention today than it received in its false glory days. As subsequent events made clear, much of the earlier fanfare about, and fear of, Japan was misplaced. Japan's economic model was not nearly as powerful as it looked. Large market shares masked thin profits and low productivity, signaling trouble for the economy's endurance. Government protection let inefficient industries survive for too long, hampering what Joseph Schumpeter once described as capitalism's innovative "creative destruction." Essential postwar industries became national and global laggards, compounding inherited problems in the financial and public sectors of the economy.

Though with little domestic fanfare and even less notice from the rest of the world, Japan began reinventing itself in the 1990s in ways that evoke parallels with the Meiji Restoration of 1868. As with the Meiji overthrow of the Tokugawa regime, Japan's political economy in the twenty-first century replaces a failed attempt to close its borders with one that accepts integration with the world economy as inevitable. Also as occurred in the Meiji Restoration, the old political structure that rested on uncompetitive domestic forces collapsed, to be supplanted by new institutions more compatible with global integration. Japan's new electoral rules, established in 1994, create noticeably different incentives influencing how politicians regulate the economy and how they approach foreign policy. Because Japan remains the world's third largest economy,⁴ it is important to understand how its domestic politics will shape its engagement with the world in years to come.

Transformations like those Japan is undergoing tell us about how politics works in a more general sense. When do political institutions change, and do they matter apart from the forces that brought about their change in the first place? How powerful are institutional incentives in shaping the political and economic landscape? How do they interact with inherited political culture and the interests of entrenched elites?

Most theories of politics of the developed world are based on the experiences of the United States and Europe. Despite being one of the world's richest countries, Japan is often the "odd man out," not only because language barriers impede the full integration of Japan's experience into the Western canon, but also because the policies Japan has adopted have seemed anomalous in the context of either Anglo-American *laissez-faire* or continental European welfare states. Now that Japan is moving in an

⁴Japan is number three when measured according to purchasing-power-parity (PPP), having recently been surpassed by China. In nominal terms (at current exchange rates) Japan's economy is second only to that of the United States.

Anglo-American direction, should we interpret these changes as harbingers of global economic convergence? The key to understanding the economic system to which Japan is moving, we will argue, lies both in pressures from the world economy and in how they are filtered through domestic political institutions.

JAPAN IN THE WORLD

Despite nearly two decades of economic stagnation, Japan remains a colossal power. Its economy is enormous, and although it has been surpassed in absolute size by China's (with China's ten-times-as-large population), Japan is economically still more than a third larger than fifth-ranked Germany and twice as large as the United Kingdom or France. Although Japan officially has no army, navy, or air force, owing to its constitutional renunciation of war, the Japan Self Defense Forces (SDF) are in fact a formidable military by another name. By many other measures as well, Japan is an extremely influential player whose actions have bearing for world peace, prosperity, and health. Understanding why the Japanese do what they do on the world stage requires knowledge of how Japan's democracy translates the preferences of its citizens, interest groups, bureaucrats, and politicians into national policy and action.

Table 1.1 compares Japan with other OECD countries, plus China, in terms of territory, population, and economic size. Japan's millions are densely nestled in the valleys and narrow plains of a mostly dormant volcanic mountain range, forming the four major islands and countless small ones that make up the Japanese archipelago. The total land mass is smaller than the state of California and only 4 percent of the size of the United States, and only 12 percent of Japan's land is arable. Japan is also physically smaller than France and marginally larger than Germany and the United Kingdom. Metropolitan Tokyo, with over 35 million residents, is the world's largest city, dwarfing Mexico City (19 million) and New York City (18.5 million).

With few stores of natural resources but considerable ingenuity, occasional predation, and institutionalized economizing, Japan built a powerful industrial economy to rival the world's greatest. Japan's 2008 GDP per capita was \$35,300, well behind Luxembourg's \$85,100 and the United States' \$48,000, but above Germany's \$34,800 and far, far ahead of China's \$6,100. Japan's weight is felt in visible industrial exports, as well as in its less visible purchases of raw materials from around the

TABLE 1.1
Japan's Place in World Rankings, 2008: Size and Wealth

<i>Area ('000 sq. km)[†]</i>	<i>Population (millions)</i>	<i>GDP (\$ billions)[‡]</i>	<i>Per Capita GDP (US \$)[‡]</i>
2. Canada (9,984.7)	1. China (1,338.6)	* EU (14,960)	3. Luxembourg (85,100)
3. United States (9,826.6)	* EU (491.6)	1. USA (14,580)	6. Norway (57,500)
4. China (9,597.0)	3. USA (307.2)	2. China (7,800)	10. USA (48,000)
6. Australia (7,686.9)	10. Japan (127.1)	3. Japan (4,487)	11. Ireland (47,800)
* EU (4,324.8)	11. Mexico (111.2)	5. Germany (2,863)	15. Iceland (42,600)
14. Mexico (1,972.6)	16. Germany (82.3)	6. UK (2,281)	18. Netherlands (41,300)
36. Turkey (780.6)	17. Turkey (76.8)	8. France (2,097)	19. Switzerland (40,900)
41. France (643.4)	21. France (64.1)	10. Italy (1,801)	21. Canada (40,200)
50. Spain (504.8)	22. UK (61.1)	11. Mexico (1,578)	22. Sweden (39,600)
54. Sweden (450.0)	23. Italy (58.1)	12. Spain (1,378)	23. Australia (39,300)
60. Japan (377.8)	25. South Korea (48.5)	13. Canada (1,336)	24. Austria (39,200)
61. Germany (357.0)	31. Spain (40.5)	14. South Korea (1,278)	25. Denmark (38,900)
63. Finland (338.1)	34. Poland (38.5)	16. Turkey (931)	27. Finland (38,400)
66. Norway (323.8)	38. Canada (33.5)	18. Australia (82.5)	28. Belgium (38,300)
68. Poland (312.7)	54. Australia (21.3)	20. Netherlands (688)	30. UK (37,400)
69. Italy (301.2)	59. Netherlands (16.7)	21. Poland (685)	32. Spain (36,500)
73. New Zealand (268.7)	74. Greece (10.7)	29. Belgium (399)	34. Japan (35,300)
76. UK (244.8)	75. Portugal (10.7)	33. Sweden (358)	36. Germany (34,800)

94. Greece (131.9)	78. Belgium (10.4)	34. Greece (351)	* EU (34,000)
105. Iceland (103.0)	80. Czech Republic (10.2)	37. Austria (325)	37. Greece (32,800)
106. South Korea (98.5)	83. Hungary (9.9)	39. Switzerland (310)	38. France (32,700)
107. Hungary (93.0)	88. Sweden (9.1)	41. Czech Republic (274)	41. Italy (31,000)
108. Portugal (92.4)	93. Austria (8.2)	42. Norway (267)	49. New Zealand (28,500)
111. Austria (83.9)	95. Switzerland (7.6)	45. Portugal (245)	50. Czech Republic (26,800)
113. Czech Rep (78.9)	110. Denmark (5.5)	50. Denmark (214)	51. South Korea (26,000)
117. Ireland (70.3)	111. Slovakia (5.5)	51. Hungary (206)	53. Slovakia (22,600)
127. Slovakia (48.8)	113. Finland (5.3)	53. Finland (201)	54. Portugal (22,000)
131. Denmark (43.1)	116. Norway (4.7)	54. Ireland (199)	58. Hungary (20,500)
132. Netherlands (41.5)	124. New Zealand (4.2)	60. Slovakia (123)	70. Poland (17,800)
133. Switzerland (41.3)	125. Ireland (4.2)	61. New Zealand (119)	83. Mexico (14,400)
137. Belgium (30.5)	169. Luxembourg (0.5)	95. Luxembourg (41)	88. Turkey (12,900)
170. Luxembourg (2.6)	178. Iceland (0.3)	138. Iceland (13)	130. China (6,100)

Source: Central Intelligence Agency. 2009. *The 2008 World Factbook*. <https://www.cia.gov/library/publications/the-world-factbook/>.

Note: The numerical rankings are for all countries of the world, but these lists include only the thirty OECD member countries, plus China and an entry for the European Union as a whole.

^aArea includes both land and water, which explains why the United States is ranked as larger than China.

[#]GDP and GDP per capita are measured at Purchasing Power Parity. Measured instead at current exchange rates, Japan's economy is still somewhat larger than China's.

world. Japan exported \$566 billion worth of industrial and other products in 2007, 22.4 percent of that to the United States and 13 percent to China. Japan's imports lean toward fuel and raw materials rather than finished manufactured products, a pattern that has gotten it in trouble with its trading partners that covet greater access to Japanese consumers. Toyota, Mitsubishi, and Sony have long been in greater evidence around the world than are American or European counterparts in Japan. In more recent decades, Japanese games and animation have also captured worldwide audiences as the Japanese economy shifts into software and services.

The Japanese government has spent considerable sums in support of its diplomatic aims to maintain peace and prosperity. Japan is the number two foreign aid donor in the world behind the United States, and also second to the United States in terms of support for the United Nations, the World Bank, and the International Monetary Fund. As a fraction of GDP, Japan pays the UN twice what the United States contributes (and more than Germany or the United Kingdom), and its contributions to the World Bank and the IMF, respectively, are greater than, and on par with, those of the United States.⁵

Evidence of Japan's financial muscle is consistent with its typical description as an economic giant, but Japan's military strength is less widely understood. After World War II, the Japanese public was not only disillusioned with the militarism of its own government but also horrified by the devastation visited upon Hiroshima and Nagasaki by American atomic bombs. Japan's low military profile, though initially imposed via the 1947 constitution by the U.S.-led Occupation, retains widespread popular support. As the economy prospered, however, the small percentage of Japan's GNP allocated to military expenditures grew to enormous sums. Although Japan's \$42 billion spent on defense in 2007 is still less than 10 percent of the U.S. defense budget, the striking feature of contemporary military spending is not how little Japan spends but how far ahead of the rest of the world are U.S. military expenditures. The United States accounts for about two-fifths of the world's military expenditures, which is as much as the fourteen closest-ranking military spenders combined, and seven times more than China.⁶ Japan's military budget in 2007 ranked seventh in the world, after the United States, China, Russia, France, and the United Kingdom, but ahead of Germany.

⁵Philip Lipsky (2005) argues that Japan has greater influence in the World Bank than in the IMF because Japan could, if it wanted, bypass the World Bank in offering aid but it could not create a substitute for the IMF's provision of international financial stability.

⁶U.S. Office of the Secretary of Defense 2007.

By whatever measure, Japan is one of the world's greatest powers. Understanding how Japan became powerful and how it uses its might is important, if for no other reason, for grasping the prospects for world peace. General theories and approaches of politics, suitably modified, are useful in enabling us to understand Japanese politics and policy making. At the same time, the Japanese example can help us understand what is idiosyncratic about theories developed in the American or European contexts, and can contribute to more general theories of politics.

THEORIES

We build the case here that Japan's policy choices are politically shaped rather than culturally or economically determined, and that politics in Japan follows a logic similar to that of politics elsewhere. There are numerous examples of existing theories that explain aspects of Japanese political economy quite well. As we discuss in the following chapters, materialist and institutionalist theories of democracy receive validation in explaining when representative government took root in Japan. A classic materialist account of Japan's current democratic stability would credit relative income equality after World War II with limiting leftist demands for redistribution. Institutionalists would point to constitutional provisions that regularized political competition and sustained among the electorate stable expectations of peaceful contestation for power. Theories of strategic competition predicted accurately both the number of factions in the LDP and the number of political parties that survived.⁷ For the reforms of the 1990s, materialist theories help account for the collapse of Japan's electoral rules in terms of changes in the distribution of economic resources. Institutional theories, which shift the focus to the electoral underpinnings of policy making, are important for elucidating how electoral incentives buffered and channeled economic pressures for several decades prior to the collapse.

While Japan nicely showcases the usefulness of some theories of politics, it sits uneasily with others. It would be a pity if our understanding of the politics of advanced democracies were to leave Japan out simply because it is hard to find theories that can explain the conspicuous mismatch between Japan's experiences and those of others. But what is one to make of Japan's small welfare state on an American scale, combined

⁷Reed 1990; Kohno 1997; Cox 1997.

with income equality, heavily interventionist economic policies, and sticky labor markets that more closely resemble those in many European states?

Political sociologist Gøsta Esping-Andersen classified rich democracies into “three worlds” of welfare capitalism: “social democracies” such as in Scandinavia where governments underwrite equal outcomes to a substantial degree through wage coordination and progressive taxation; “Christian democracies” such as Germany and Italy that protect organized labor (though without the thoroughgoing commitment to societal equality of the Scandinavians); and Anglo-American “liberal” market economies that privilege economic growth over either equality or employment.⁸ This typology describes Western Europe and the United States relatively well, but Esping-Andersen himself admits to being stumped by Japan.⁹

Our approach focuses on the interplay between political institutions and material forces. The institutional arrangements governing political competition shape the economy in discernible ways. But politicians can never completely control the distribution of resources. Wealth has a way of growing where innovation is most active, with or without government sponsorship. The Japanese government did slow the effects of globalization on politics by promoting exports ahead of the imports that would have introduced a wider range of competitors to Japanese markets. But export businesses that were winners on the global stage eventually sought to cut loose from the domestic-market-bound laggards—the farmers and small businesses—that could survive only with government protection. In time, the acquisition of resources by new groups and the collapse of formerly powerful groups threw Japan’s political institutions into disarray. This, in a nutshell, is the story behind the boom and bust of the 1980s and 1990s and the electoral reform that followed. The existing rules of political competition proved unworkable, and the changed electoral rules put into place a new regulatory structure with vast consequences for the shape of Japan’s political economy.

PLAN OF THE BOOK

An interest in politics is not the most common pathway to the study of Japan. More typically, people are drawn to Japanese aesthetics, animation, or—before the bubble burst—the Japanese “economic miracle.”

⁸Esping-Andersen 1990, 1999.

⁹Estévez-Abe 2008.

Politics was the poor relation of this ancient and exotic society that had been transformed into an economic powerhouse in a few short years after the Second World War. Time was, not long ago, when the Japanese themselves spoke disparagingly of their “first-rate economy and third-rate politics (*keizai ichiryu, seiji sanryu*).” The postwar electoral system did indeed establish a bad set of incentives for Japan’s political leaders, leading to corruption on a massive scale from which the “first-rate economy” was ultimately not immune. Japan’s changed political system, following the electoral reform of 1994, gets higher marks on a normative scale of democratic governance, but its economic consequences are mixed. As is true everywhere, Japanese politics is key to its policies, including those that structure the economy.

In chapter 2, we explore the view that Japan’s polity and economy have been shaped decisively by a unique cultural heritage. In contrast to this, we provide a view of culture as politically shaped and often in flux. We do not deny that cultural repertoires make some political strategies more likely than others, but they do this by supplying the materials for political entrepreneurship rather than by blinding actors to alternative choices. Japanese political behavior and Japanese culture more generally respond to broader incentives. Factions come and go, depending on what political candidates gain from factional affiliation; citizens’ respect for bureaucrats waxes and wanes depending on bureaucrats’ policy-making discretion; voters heed party platforms, or not, depending on whether the party platform is a likely to be translated into policies, and whether it provides a useful cue for voting behavior. The variation in these and other attributes of Japanese politics over time is considerable.

Our brief sketch of Japanese history from prehistoric times demonstrates the stark changes in Japanese values that have accompanied changes in circumstances. Any notion that Japanese culture is an immutable force operating on the minds of modern Japanese is belied by the variety of cultures in Japan’s own past. On inspection, “culture” turns out to result from historical changes that themselves stand in need of explanation. Otherwise the appeal to “culture” is no more enlightening than is the description of Japan’s early postwar economic success as a “miracle.”

Chapter 3 recounts several Japanese experiments with democracy, beginning with the Meiji oligarchs who attempted but failed to insulate Japan’s new constitutional monarchy from party competition. What are the conditions under which democracy emerges and is sustainable? Was Japan’s democratic interlude during the 1920s a genuine expression of

government “by the people,” or was it doomed to fail? Did Japan’s late industrialization (as compared to that of the United States and the United Kingdom) consign it to a pattern of economic organization that required a “strong state,” militating against pluralist democracy? Was Japanese military expansionism into Asia an inevitable outgrowth of its political and economic structure, or was Japan playing, perhaps a little too late, the realist game of power politics that the European nations had pursued during the nineteenth century?¹⁰ Our evidence reveals the inadequacy of approaches that rely on such economic factors as income levels, income distribution, or the timing of industrialization. We show that the strategic behavior of actors was crucial to choices over economic and military policy, as were the rules governing political competition among those actors.

Chapter 4 tells the story of Japan’s postwar political system, characterized by long-term dominance by the Liberal Democratic Party. Japan’s multimember-district electoral rules required any party wishing to win or maintain a majority to field multiple candidates in head-to-head battles. This created a vote allocation problem: how, in a democracy, could a party persuade voters to allocate their votes across candidates to maximize the party’s electoral fortunes? Given that voters could be expected to resist control from the top, one might suppose that the resulting internal competition would destabilize large parties. Indeed, the LDP was highly factionalized and looked prone to splits along multiple lines. Because the benefit of the party label suffered under the pressure of copartisans campaigning against one another, the LDP’s long-term command of a legislative majority has always posed something of a puzzle.

This chapter unravels the puzzle by examining how the LDP managed to overcome the joint product-differentiation and vote-division problems that the electoral system created. In short, the LDP traded its control over government policy for campaign finance from corporations and votes from heavily subsidized backward sectors of the economy. This advantage was sufficiently large to keep party factions loyal to the majority party and to preclude party splits.

The Japanese experience sheds light on the debate in comparative and American politics as to conditions under which parties appeal to core or swing voters,¹¹ showing that electoral rules that introduce intraparty competition enhance the electoral importance of core voters. This, in

¹⁰Iriye 1972.

¹¹Cox and McCubbins 1986; Lindbeck and Weibull 1987; Dixit and Londregan 1996; Levitt and Snyder 1995; McGillivray 2004; Golden and Picci 2008. On Japan, see Horiuchi and Saito 2003.

turn, vanquishes the old saw that the Japanese political system is *sui generis*. Japanese politicians respond to electoral incentives just as politicians do in other democracies. By obliging each incumbent to create a core group of loyal voters, the electoral rules generated enormous collective action costs for voters who might otherwise have supported redistribution to the median on a simple left-right continuum.

Japan's postwar political economy, which we take up in chapter 5, has been likened to a phoenix rising from ashes. Within a few decades after total defeat and the utter devastation of its industrial cities, Japan turned itself into an economic juggernaut, poised, some thought, to take over the world economy with commercial power in lieu of military force. Standard accounts of Japan's postwar economic success center on the precience of the Japanese bureaucracy, or on market institutions such as main banks and cross-shareholding that improved on *laissez-faire* capitalism by building in a "long-term perspective."

The argument put forward here is rather that the Japanese heavy industrialists, who came through the war with large sunk costs in munitions, steel, and shipbuilding, lobbied the LDP to back their investments with a development strategy privileging heavy industries. The result was protectionist regulation, budget subsidies, and tax deals that set Japan on a development plan that supported exports while discouraging competing imports. The plan meshed well with the LDP's electoral strategy: in exchange for policy favors, industry funneled enormous campaign contributions into the LDP's electoral campaign coffers. All was well while the economy grew, for voters gave the LDP credit for the phenomenal success. But eventually the economy faltered under the weight of accumulated inefficiencies, and the LDP found itself with decades of economic mismanagement to pay for.¹²

Chapter 6 considers why the LDP in 1994 abandoned the electoral system that it had mastered for so long, in favor of a new system that mixed single-member districts and proportional representation. This chapter explains the political causes and consequences of electoral reform. Japan's demographic transformation from a largely rural nation of farmers and small shopkeepers to one of urban workers undermined the effectiveness and raised the costs of the LDP's vote allocation strategy described in chapters 4 and 5. By the early 1990s, some in the LDP's leadership

¹²Understanding this reality is of particular comparative importance in view of the claims currently being made about China's economic miracle. Investment misallocations analogous to those experienced in Japan are likely to have comparable deleterious effects for the Chinese economy not too far down the road.

reckoned that the “floating” urban voters were harder to allocate efficiently across multiple candidates in multimember districts, and it would be better for the party’s fortunes to adopt plurality electoral rules that would advantage the largest party, in combination with proportionality rules that would keep the Opposition divided into smaller parties.

This finding is buttressed by our analysis of the changes in Japanese politics since electoral reform. Although out of office for only a brief time, the LDP has undergone an unmistakable transformation. LDP factions have atrophied, for much diminished is the need for LDP politicians to raise resources to differentiate themselves from copartisans. Electoral campaigns have become more programmatic and less personalistic, as the new electoral rules give the advantage to campaigns that can appeal efficiently to broad swaths of voters. Voters appealed to in this way take greater interest in, and have greater influence over, national policy.

We argue that economic policy and the market institutions to which they give rise are politically driven. The electoral rule change of 1994 provides a rare opportunity to test this claim. Chapter 7 investigates economic policy after electoral reform for evidence of stasis or change, and finds that banking and stock market regulation have shifted toward the interests of the average consumers and taxpayers, as we would expect. Japan’s version of neoliberalism is the result, as the government unwinds protection of economically inefficient sectors, including agriculture and parts of the service sector such as distribution.

Although the Japanese government is tackling the problems of low productivity by allowing fiercer domestic and international competition in Japanese markets, Japan’s troubles are far from over. Income inequality looms large because Japan’s protected sectors harbored millions of workers who were “underemployed” and paid wages beyond their economic contribution. Electoral competition has put the spotlight on Japan’s weak welfare protections, a problem that the rapidly aging population and economic swings put in high relief.

Japan’s electoral rules, which pit two large parties against one another in competition for the median voter, weaken the political power of labor unions and minimize the possibility that Japan will grapple with income inequality through employment guarantees and unemployment compensation in European fashion. But median voter preferences have begun to push the dominant parties to support more generous public funding of pensions and other forms of social security than was the case in the past. Japan’s political economy has shifted from the postwar equilibrium—of economic protection of politically favored groups—to a freer market that

produces losers whose only hope of policy attention is their proximity to the median voter.

Chapter 8 examines the effects of changes in domestic political incentives on foreign policy. In recent years, Japan's Asian neighbors have sounded alarm bells about signs of rising Japanese nationalism. Textbook censorship continues to downplay Japan's history as an imperialist power in Asia. Japanese opinion polls show growing public support for an assertive Japanese foreign policy and for amending the "peace constitution" to permit rearmament.

Several explanations for Japan's new nationalism are on offer, primarily having to do with geopolitical changes. China continues to grow in strength as a regional and global power, while the end of the Cold War casts doubt on the depth of American commitment to protect Japan's interests. North Korea has become more dangerous and threatening. And the Iraq War is likely to stoke fears of a new era of American isolationism.

A closer look at Japanese public opinion data, however, reveals a more subtle pattern that defies explanation by exclusive reference to changes in Japan's external environment. Whereas the Japanese public increasingly supports an assertive foreign policy, opinion polls show no growth in national pride, or in a willingness to "follow the government, right or wrong." As we saw with domestic policy in chapter 7, we show here that parties now have an incentive to make broad appeals to the average voter with public-goods-oriented policies. Under the old electoral rules, politicians appealed to voters on narrow, personalistic grounds, but with more centrism built into the system, appealing to voters on issues of national policy makes electoral sense.

Some people wrote off Japan's political reforms of the early 1990s when they failed to usher in a new era of two-party competition with regular alternation in government. We take up this subject in chapter 9. It is true that Japan has not moved all the way to a Westminster system. It is also true that there is little hope for judicial independence while one party continues to appoint all the members of the Supreme Court. But it would be a mistake to underestimate the far-reaching effects of the electoral reform. Although the LDP has remained in government for all but a few months since 1994, the electoral strategy by which it does so has changed discernibly. In single-member districts, each LDP candidate must aim for a plurality of votes, in competition with other parties' candidates pursuing the same goal. The old "divide and conquer" electoral strategy of carving out and cultivating a niche of loyal voters with personalistic appeals is now both inefficient and insufficient. Programmatic party com-

petition, on national and foreign policy issues, increasingly shapes the debates in which voters take part. The prospects for regular partisan alternation in government are higher than ever, as is the possibility that the LDP will collapse, leading to a dramatic realignment of the party system.

Whatever the ultimate fate of the LDP and the rival Democratic Party of Japan, the fundamental reorganization of Japan's political system that began with electoral reform in the early 1990s will continue to work its way through Japan's economic, social, and national security policies. Under the new electoral rules, propping up cartels in exchange for campaign funds is no longer a key to victory, and politicians are debating each other and taking positions on competing visions of the public interest. This is the good news. Although policy change is halting and uneven, changes in financial regulation, labor market institutions, and foreign policy follow a striking pattern: the cozy deals of the postwar period are under siege, and voters are being drawn into public debate over Japan's future.