

## The Meaning of ‘the Social’ in Japan Reform

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# **The Meaning of ‘the Social’ in Japanese Political Reform**

**Jiro Yamaguchi**

## **Introduction**

In 1993, Japan experienced its first change of government in 38 years. Since then, successive attempts have been made to both reform political institutions and realign political parties. In this sense, we can draw a parallel with Italy during the same period, where scandals triggered institutional reform and banished the old guard of powerful politicians. However, the results of the political dramas in Japan and Italy were completely different. While the introduction of a first-past-the-post system in Italy brought about a bi-polar party system and enabled serious competition between the right and center-left, in Japan not only did the old Liberal Democratic Party (LDP) manage to survive the political turmoil, but we do not yet have reliable opposition. Consequently, we can call the 1990s a lost decade for Japanese politics. In this sense, the current economic depression is result of the absence of political leadership and the lack of policy ideas on the part of the political elites (1).

This political stalemate can be ascribed to a failure of the Japanese left. Continuing LDP rule is made possible by the incapability of the opposition, rather than by the strength of the LDP. The Social Democratic Party of Japan (SDPJ), which had served as a pillar of postwar party system, even though its share of seats in the Diet was about half that of the LDP, did have the opportunity to develop into a real opposition party at the beginning of 1990s after a long slump. Under Chairperson Doi's leadership, it enjoyed unprecedented approval rates and won great success in the elections for both

houses of the Diet in 1989 and 1990. However, it could not take the initiative in carrying out the reforms that Japan needed at that time. Further, the SDPJ's apparent resurgence only reinforced its complacency.

Instead, people came to expect new parties to take over from the corrupted LDP. A group of reform-inclined SDPJ members quit that party to join the Democratic Party of Japan. Since political parties reflect social institutional capital, newcomers in politics always face difficulties. They need nationwide organization, funding, recruitment systems and staff. Established parties are always at an advantage in this sense, as new parties find it very difficult to keep themselves viable. This is one reason why opposition parties do not appear formidable. Thus, the SDPJ may be held responsible for failure of party realignment. In addition, the value of 'the social' is being almost entirely ignored in policy-making in policy debate in the early 21<sup>st</sup> century.

In this paper, I first would like to investigate why the Japanese left failed in its attempts at party realignment in 1990s. Then, I would like to consider how the idea of social value can be revived in 21<sup>st</sup> Century Japan.

## **I. Pseudo-Social-democracy in Postwar Japan**

### **1. Successful Social Democracy? — Who Made Japanese-Style Pseudo-Social Democracy and How?**

The postwar socio-economic system formed in Japan by the LDP and the bureaucracy is often called 'successful social-democracy,' especially by economists and business leaders keen to point out the limits and defects of the Japanese system from a neo-liberal point of view.

It seems odd to label Japan as a social democratic nation, as it has been ruled

almost continually by the LDP, a conservative party that is largely dependant on business for funding and votes. The fact that many distinguished politicians and bureaucrats nevertheless describe Japan's postwar order in these terms suggests that the Japanese understanding of social-democracy or social value differs from that commonly held elsewhere in the world. It also seems to me that this tendency to speak of postwar Japan as a 'social-democratic success story' provides clues for understanding some of the basic features of the Japanese politico-economic system that was formed during the economic expansion between the 1960s and the 1980s.

There are some basic features of the postwar Japanese economy on which almost everyone agrees. These are: (1) that it developed at a rapid pace even after two oil shocks in 1970s; (2) that it is subject to much government intervention in the form of regulations, public investment etc; and (3) that it created a society with a relatively small individual or regional economic disparities—a society, in effect, in which everyone felt that they belonged to the middle class. Almost all media discussions of economic policy in Japan are predicated on these shared perceptions.

It is usually the second point that receives the strongest emphasis, as commentators stress the role of Japan's regulatory regime in creating an industrial order that ensures the survival of the weakest, thus minimizing the role of competition. They note as well the tendency to concentrate public investment in poorer rural prefectures, a policy reflecting the importance of the farm sector in the LDP support base. These two factors are thought to have contributed greatly to the leveling of Japanese society.

The features listed above have been widely cited as ingredients in the success that Japan enjoyed in terms of economic affluence and social and political stability right up through the 1980s. In the 1990s, however, with the nation mired in a recession

brought on by the bursting of the bubble economy, and global competition intensifying to boot, the aforementioned features of the Japanese system became a hindrance, suppressing economic vitality and inhibiting the attainment of greater efficiency. Within this context, advocates of reform began using the term ‘social-democracy’ in reference to the postwar Japanese system’s redistribution of assets and dampening of competition. This view equated Japan’s failure to adapt to the new global capitalism with the defeat of socialism in Europe and elsewhere. Thus, for the neo-liberal crowd, the basic theme of reform in Japan was ‘a farewell to social-democracy.’

In this paper, I would like to reflect on the problem of who made this system and how. I also want to analyze what the left was doing in the process of formation of pseudo-social-democracy.

## **2) Actors**

Roughly speaking, there were three kinds of actors in the postwar political system. The first is the Liberal Democratic Party, which was founded in 1955 and maintained its hold on power until the present with short exceptional time. The second is the bureaucracy, which virtually dominated law making and budget allocation. These two formed a coalition to promote economic development and together built pseudo-social-democracy. The third is the Socialist Party or the Social Democratic Party of Japan., which remained marginal in policy making, but had some influence especially on ideological issues such as the Constitution and defense. The original Japanese name of this party, *Shakaitou*, literally translates as ‘Socialist Party,’ but from its establishment in 1945 the official translation of its name in English was the Social Democratic Party of Japan. This translation was reflection of compromise between the left and the right in the party. As the left faction grew larger in late 1950s, the Socialist

Party came to be used as English translation. It was not until collapse of the Soviet Union in 1991 that the Party changed the translation to SDPJ again. In 1996, the party's Japanese name was changed to Nihon Shakai-Minshuto, or the Social Democratic Party of Japan. In order to avoid confusion, I will use JSP to designate the party until 1991 and SDPJ to designate the party after 1996.

The LDP was formed from an amalgam of several conservative parties to keep pro-American government in Japan in the context of the cold war. As rapid economic growth began in 1960s, it accelerated positive policies by increasing public investment. In spite of its conservative posture, the LDP was quite progressive in terms of spending policy (2). Since the LDP held a vast majority in rural districts, which lagged far behind early developed urban areas, its domestic policy aimed at 'balanced development of the nation'. This policy trend made great contribution to Japanese-style equality.

The bureaucracy during most of the postwar period was composed of some twenty ministries that had strong autonomy and had adapted to rapid economic growth and mass democracy. The ministries in charge of public investment had a particularly important role in politics. They keenly expanded their budget and organization by responding to demand from interest groups and local communities. Also, they mobilized LDP politicians to promote their policies. Formulating comprehensive long-term plans, they pursued balanced development throughout Japan. In this sense, the bureaucracy was also attached to equity.

The left parties played different roles in postwar politics. In spite of its original English name, the Social Democratic Party, the JSP was so deeply influenced by Marx-Leninism that it preferred revolution to gradual change of policy through parliamentary democracy until 1980s. Rather, its platform, the 'road to socialism in

Japan' proposed the goal of Soviet-style socialism even in the era of rapid economic growth in the 1960s and 70s. Social-democracy became a symbol of contempt when the Socialist Association, a fundamentalist left-wing group, gained hegemony in the party. It was not simply interested in social-democracy or the welfare state. However, it enjoyed popular support for its stance against constitutional reform and for its pacifist posture on security issues.

In the 1950s and early 1960s, the LDP attempted to amend the Constitution, especially Article 9, which renounces war and the possession of military forces. However, the Japanese people, who remembered the disaster of World War II, were strongly attached to the ideal of pacifism and Article 9, and therefore supported the JSP to prevent the LDP from revising the Constitution. Thus, the JSP became a symbol of the pro-Constitution movement. This made the JSP somewhat indifferent to economic policy.

### **3) Styles of behavior and policy-making**

The LDP is a typical instance of clientelism (3). It operates through various social networks that mediate demand and interest. Diet members are brokers who allocate handouts such as construction projects, licenses and concessions. They practice a self-styled 'kind and gentle politics.' LDP politicians' machines have been especially important in rural localities, where they functioned as a redistribution system.

The Japanese administrative system is characterized by the huge discretionary power of the bureaucracy (4) and its overall centralization. Discretionary power is quite important in budget allocation and regulation. The majority of public-works projects are made possible by subsidies from the central government, which takes in almost two-thirds of the nation's entire tax revenue while two-thirds of total government



spending is by local governments. Thus, local governments, except in densely populated metropolitan areas, always suffer revenue shortfalls and therefore depend on subsidies from the central government. However, the division of the local subsidy-pie among the prefectures or cities is left to bureaucratic discretion. Political leverage is indispensable for subsidy hunting by local governments. Without the brokerage of LDP Diet members, the central government would not listen to petitions from the localities. In this sense, the subsidy system based on centralization provides fertile soil for political clientelism. That also has been contributing to reducing gap between the center and the periphery to large extent.

Another source of discretionary power lies in the administration of regulations, carried out not in keeping with clear and specific rules but through ‘administrative guidance’—ad hoc regulation adjusted to the situation at hand. In Japan, we do not have a tradition of the rule of law. Bureaucratic power has not been restrained by law because existing law is both vague and delegates to the implementation process the power to make rules. Until 1980s, the Ministry of International Trade and Industry and Ministry of Finance protected less-than-competitive domestic industries through informal guidance. Before the globalization of free competition principles, they were able to impose complicated procedures on and demand strict qualifications of business through extra-legal guidance, which prevented the rule of market competition. Such an industrial order is called the ‘convoy system’, which implies that the entire convoy cruises at slow speed under the guidance of the government so that weakest elements can keep up. Although foreign governments have criticized this system since the 1980s for its non-transparency and unfairness, it is true that the convoy system contributed to Japanese-style equality.

The LDP operates through a division of labor similar to the central bureaucracy, with politicians specializing in various policy areas influencing the regulatory processes on behalf of their constituency and the interest groups who support them. From the late 1970s on, the United States and other foreign governments have criticized Japanese regulation policies that protected domestic businesses at the cost of fairness and transparency. However, the LDP blocked attempts at deregulation in the domestic legislation process. In several cases, when deregulation or opening of markets was inevitable, they used political power to extract special budget for compensation to victims of these policy change. Thus, in case of regulatory policy too, discretion strengthened clientelism.

Electoral reform through the introduction of a first-past-the-post system has made matters even worse. Since these original defects in the Japanese administration system remain, every Diet member, as the only district representative, is now forced to lobby harder for central government handouts so as to please local constituents (5).

The left was quite marginal in ordinary policy processes throughout 1960s, 70s and 80s. According to Ralf Dahrendorf's categorization of constitutional politics and normal politics in his book, *Reflection on the European Revolution*, constitutional politics is controversy or struggle over the constitution or principles of political or social regimes. Normal politics is a power game over the allocation of values. Constitutional politics is galvanized when a regime collapses, e.g. Eastern Europe in 1989. As a regime becomes stabilized, normal politics replaces constitutional politics, and political activities center around the allocation of resources. The JSP was largely absorbed in constitutional politics and indifferent to normal politics throughout the era of economic expansion (6), although in some cases, leftist politicians joined in the politics of

clientelism on behalf of trade and agricultural unions. The left also shared the idea of a 'kind and gentle politics,' however it never scrutinized the policy programs of the LDP and the bureaucracy from the perspective of western-European social-democracy. It is remarkable that normal politics in postwar Japan have been so poor (7).

#### **4) Japanese Model Reexamined**

Of course, Japan is not a social-democracy in the sense of the term that western European scholars and politicians use. The percentage of the national budget devoted to welfare and social security programs (19.6% of National Income in 1999) is low compared with European countries and as low as United States (UK: 29.6%, Germany: 37.7%, France: 40.9%, Sweden: 46.2%, USA: 18.0%). Policies to support women in the labor force are also very weak. The stable employment and relatively small income disparities for which postwar Japan was noted were not brought about by social policies implemented under pressure from organized labor as in Europe. The reason for this is that in Japan expenditure on public fixed capital formation is unusually high as a percentage of GDP (6.8% in 1998). This is three times as large as that in European countries (UK: 1.4%, Germany: 2.0%, France: 2.8%, USA: 1.9%). Put in concrete terms, the redistribution and equalization of assets seen in Japan has resulted primarily from policies and projects pushed by the LDP to protect and reward the construction industry, a major source of its strength, together with the local ripple effects of such projects—not from social-democratic policies, as neo-liberal-leaning economists and politicians have suggested. As for workers in urban areas, they enjoyed various benefits such as company housing, life-time employment and steady rises in salary, pension benefits, medical care etc. Nonetheless, by probing the circumstances that have given a rise to this misconception, we can gain a better understanding of the nature of

redistribution and egalitarianism within the Japanese system.

## **II. Problems of Reform in Japan**

### **1) Characterizing the Socio-Economic System**

We can gain a better grasp of the distinctive features of the Japanese socioeconomic system by analyzing the government's mode of involvement in the society and the economy. A good way to do this is to plot a position relative to two axes—one representing the spectrum from discretionary to universal policy, the other the spectrum from individual to socialized risk.

The discretionary-universal policy axis measures the fairness and uniformity of the government's policies pertaining to industrial regulation and benefit distribution. By the same token, it measures the degree of discretion exercised by the government agencies responsible for implementing those policies.

As mentioned above, the Japanese bureaucracy has enjoyed relatively large discretionary power in policy implementation. In terms of the distribution of benefits, a universal policy is one that aims for uniformity in the implementation or expansion of such comprehensive systems as long-term health insurance, pensions etc, or by increasing the budget for systems like public education. In respect to the regulation of industry, a universal policy applies the rules strictly and uniformly to ensure fair competition and consumer safety.

Discretionary policies, on the other hand, confer benefits selectively on certain groups at the discretion of the policymakers, such as subsidies or tax breaks for specific regions or industries. Discretionary regulatory policies, meanwhile, are policies that call

for ad hoc decisions whenever an issue arises between the regulated and the regulators, instead of applying the same rules to each situation; the classic example is the 'administrative guidance' so common in Japan. Here the bureaucracy wields tremendous discretion in deciding whether to apply the official rules, how strictly to apply them, or even whether to invent ad hoc regulations for the situation at hand.

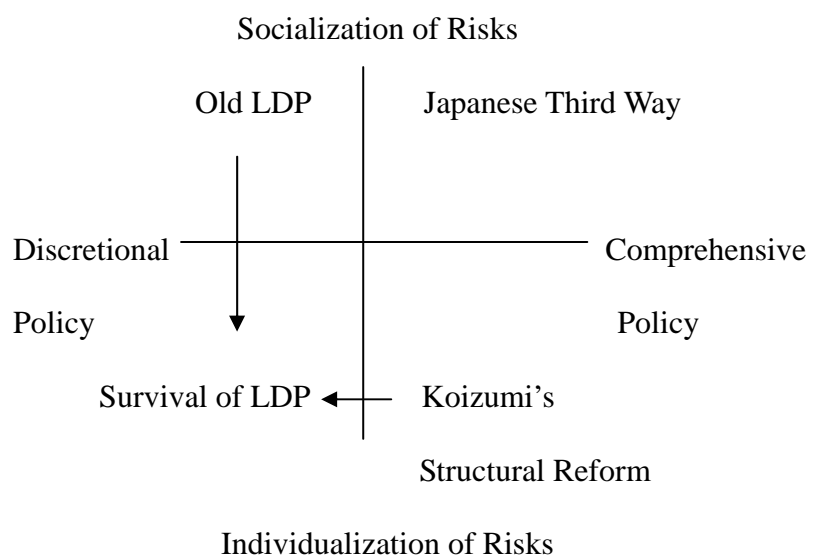
The second axis, socialized versus individual risk, gauges the degree to which society as a whole shares and lightens an individual's responsibility with respect to possible loss, injury, disasters, and so forth. In the other direction, it gauges the degree to which the principles of individual responsibility and free competition prevail.

Market purists place the greatest emphasis on individual responsibility and thus individual risk, insisting that each person assume the risk of losing his or her job, going bankrupt, falling ill, and so forth. Policies associated with this orientation include tax cuts, deregulation, and other measures that call on each individual to take on the competition and accept responsibility for the outcome. In opposition to this thinking, there are those who insist that individuals may find themselves sick or unemployed through no fault of their own and that society as a whole should assume the risk and come to the aid of people who happen to meet such misfortune. They also believe that regulations governing the behavior of individuals and corporations are necessary to prevent environmental destruction and ensure consumer safety. With respect to the distribution of risk, policies associated with this orientation emphasize the use of tax revenues or social insurance premiums to pay for things like universal pensions and health care. Where regulation is concerned, policies reflecting this school of thought strive to minimize risk to the consumer or environment through a regulatory regime, even if it means higher prices or fees than would result from free competition in a

deregulated environment.

Using both axes, we can categorize policies according to the scheme shown in Figure 1. This process will aid us as we explore the reasons why Japan's socioeconomic system has been termed social-democratic.

Figure 1. Antagonism of Policy Ideas and the Constellation of Political Forces



The first reason why the Japanese system looks like a quasi-social-democracy is that the system has functioned to socialize risk through public-works projects in rural prefectures and through a regulated, uncompetitive business environment, as exemplified by the finance industry's 'convoy system.' As we have seen, Japan's outlay for social programs is relatively low as a percentage of GDP, while its outlay for public capital formation relative to GDP is three times that seen in the Western industrial nations. This reflects the government's generosity toward the rural prefectures through public works, which have helped create jobs in those regions. In addition, by curbing competition through its regulatory policies, the government has coddled such

uncompetitive industries as agriculture and distribution, making them lucrative. The government has indirectly maintained a minimum living standard through public-works projects and regulations that allow companies to operate without regard for profitability or efficiency. This is what has led some commentators to describe the system as social-democratic.

The second basis for the label ‘social-democracy’ is the tremendous power wielded by the state bureaucracy by virtue of its discretion in the implementation of government policy.

In short, the LDP has constructed a strong safety-net beneath the weaker elements of the economy—be they individuals, companies or prefectures—by socializing risk with subsidies and through such regulatory practices as the convoy system. At the same time, it has distributed profits at its own discretion through patronage and bid rigging.

## **2) The Context of the Structural Reform**

The pitfalls of such a politico-economic system became painfully apparent in the 1990s with the advance of globalization. One problem is the strain on government finances. Since the collapse of the bubble economy of the 1980s, stimulus measures centered on public works helped prevent serious unemployment problems in the rural prefectures, but as a result, Japan has accumulated a national debt of almost ¥700 trillion (\$6 trillion or 5 trillion euros), the largest of any industrial nation. This puts the entire economy at risk. The second problem is that the competition-curbing regulation of industries has served to buoy up prices, creating a ‘high-cost society.’ The economic inefficiency resulting from this state of affairs can be regarded as the upshot of pseudo-social-democracy in Japan. The third problem is that the lack of transparency in

this type of system breeds corruption, as many Japanese came to realize in the 1990s through a series of financial scandals involving bureaucrats as well as politicians. According to the neo-liberal critics of 'Japanese-style social-democracy,' the problem was that the big corporations and wealthy individuals that drive the economy were forced to pay the price for the redistribution of assets in the form of high taxes, costs, and fees, and the bureaucrats and politicians used that money wastefully, resulting in inefficiency and corruption.

In the midst of all this, Prime Minister Koizumi made his entrance, calling for 'structural reform.' If we can take the prime minister's advisors at their word, the Koizumi administration's structural reforms are aimed at instituting universal policies based on clear criteria, such as efficiency and profitability, and eliminating intervention by bureaucrats and politicians. This is the argument behind Koizumi's drive to privatize Japan's quasi-governmental organizations. The administration and its advisors also stress policies that will provide incentives for more individual and corporate risk taking in a competitive environment. Koizumi also calls for more individual responsibility in such areas of risk as healthcare and pensions. The reform of the health-care system is designed to shift more of the cost to patients; together with recent proposals for tax reform, this is all in line with the administration's emphasis on individual risk. The principle of individual responsibility is also being applied to the disposal of nonperforming assets; creditors are calling in their loans to small businesses, and bankruptcies are mounting.

The Japanese people are fed up with privileges that high-ranking bureaucrats have enjoyed. Therefore, it is quite natural that they support Koizumi's initiative for slashing inefficient and ineffective public sectors. However, the question now is



whether this kind of structural reform, designed to root out the old 'social-democracy,' will put Japan in a position to solve its current economic woes, including continuing deflation, increasing unemployment, and financial jitters. Thus far, there is no indication that it will.

### **3) The Poverty of Structural Reform**

Needless to say, Koizumi's structural-reform campaign is facing fierce resistance from the forces that have sustained the 'social democratic' policies of the past. As far as the struggle within the LDP is concerned, the most likely outcome is a compromise rather than a clear victory for either side. In terms of the principles represented in Figure 1, the resulting setup is likely to emphasize individual risk on the one hand and discretionary policies on the other. The fact is that the LDP previously took steps to deregulate and liberalize markets in the 1990s in response to economic globalization, but behind the scenes practiced the same old politics of discretionary benefit-distribution to cushion or console those vulnerable to competition. A typical example is the ¥6 trillion agriculture budget it pushed through the Diet to make up for its decision to open the rice market to imports in 1994. In this sense, globalization aggravated clientelism. This time, however, relief will be forthcoming only in exceptional cases, as a special favor to the LDP's core supporters.

It will be difficult for Koizumi to succeed as an agent of reform. The LDP represents such a hodgepodge of political inclinations that it can never reach a consensus on any clear-cut departure in policy, and this is the main reason its reformist leaders are hard-pressed to carry out their own policies. It is clear that the LDP has simply been taking advantage of Koizumi's anti-LDP, reformist image to hold on to its position as the ruling party, which it values above all else. If that is the case, the only

real chance for reform is through a change of government. But if a change of government occurs just once more, we can expect the LDP to splinter, setting in motion a more meaningful political realignment.

#### **4) The Responsibility of the Left**

The left is to blame for this poverty of reform. In fact, the symbol of reform in Japan is monopolized by neo-liberal forces, leaving the Japanese people with no alternative to Koizumi's agenda.

The party realignment of the mid-1990s resulted in the SDPJ splitting. SDPJ members who advocated Japanese-style center-left policies withdrew from the party in 1996 to form the Democratic Party in combination with politicians from several other new parties who belonged to the liberal or progressive side of the conservative camp. Those who opposed the change to the party's pacifist ideology that took place when Chairman Murayama became prime minister in 1994 formed the New Socialist Party, a minor pacifist party. Only a quarter of SDPJ Diet members remained in the party and it virtually lost influence.

In 1998, the Democratic Party merged with other new parties, becoming the largest opposition force in the Diet. However, the new Democratic Party is patchwork of heterogeneous elements in which former-SDPJ members are tiny fraction. The Democratic Party has faced an identity crisis since it formed. Many politicians joined new parties to win public favor during the new party boom in the early 1990s. After the burst of this new party bubble, many turned to the Democratic Party for refuge. The only common denominator of this party is its anti-LDP stance (8). Once it begins articulating ideas and policies to displace the LDP from government, its various factions become antagonistic. Therefore, in order to maintain party unity, its leadership keeps on

postponing delivery of its policy agenda.

It is very peculiar that Prime Minister Koizumi still enjoys high approval ratings while more and more people suffer from his reforms. His austerity policy prevents the government from using fiscally stimulus to hasten economic recovery. He promised to limit the annual fiscal deficit to ¥ 30 trillion when he was nominated Prime Minister. Although he was not able to keep this promise because of expansion of expenditure for entitlement programs, he has been refused additional stimulus policy. The national unemployment rate has been over 5% since 2001, with a more serious unemployment crisis in rural areas like Hokkaido and Okinawa. The young generation has serious difficulties job hunting. Slashing the public sector means reductions in public services such as education and housing. The government has announced that it is considering increasing the burden of contributions and decreasing the benefits in the public pension and health insurance systems in coming years. In general, people do not expect any improvement in the economy or society. According to an opinion poll conducted by the Cabinet Office in June 2003, 67% of the people feel anxious about the future. They are worrying about their lives after retirement, especially regarding pensions, and health care, and younger generation are anxious about the education of their children. One could easily understand that corporate liberalism like Koizumi's would never ease their anxiety if only an effective opposition party could propose a clear-cut alternative.

At the same time, people still support the Prime Minister. An opinion poll conducted by the *Asahi Shimbun* newspaper in August 2003 showed that 49% of the people approve of Koizumi. However, they could offer no substantive reason for this approval. Of those who approved of Koizumi, 24% said they approved because they

like him personally and 25% had no reason for their approval. Two-thirds of those who expected Koizumi to continue in office said they hoped so because there were no other candidates for prime minister. 64% of respondents said they expected Koizumi to change his mind about economic policy and take much positive policy for economic recovery.

It is clear that a majority do not support structural reform based on neo-liberal ideology. The popularity of Koizumi and the LDP is so fragile that the Democratic Party would be able to take over from the LDP if it could propose a reliable agenda to reform the socio-economic system.

### **III. In Appreciation of the Social Value of Reform**

#### **1) The Two-fold Problem Facing Japanese Social-democracy**

I would like to conclude by considering the kind of party needed to fill the present vacuum in Japanese party politics. What the country needs now is a political force that combines the ideals of universal policy and socialized risk. The goals of such a party would be to clean up the bureaucracy and put an end to political patronage, while at the same time laying the foundation for universal policies to protect and sustain the people—especially those buffeted by misfortune—instead of leaving their fate to market forces. For example, instead of abandoning those displaced by shifts in the economic structure or devising ad hoc stopgaps one industry at a time, this party would seek to bolster unemployment insurance and strive for universal policies designed to get people back on their feet, such as government-subsidized education and training.

If the tide of bankruptcies and unemployment continues to rise as the Koizumi administration pursues its blind quest for small government, it will be necessary above

all to forge a policy to stabilize business and employment. This should be a strategic program centered on undertakings that simultaneously respond to other challenges facing Japan in the twenty-first century, such as the environment and an aging society—not the arbitrary doling out of funds or the anachronistic development and public-works projects that were carried out during the administrations of Keizo Obuchi and that the old factions of LDP now promise to continue.

At the same time, Japan desperately needs universal policies based on principles and rules. The rules for maintaining the economic system must be strict and unbending to ensure justice, while those aimed at assisting people in need should be fair and caring. As I mentioned earlier, the Koizumi administration seems to be pursuing reforms based solely on the principles of ‘efficiency’ and profitability. Yet when it comes time to apply these rules to the actual economy, he reverts to the LDP’s old discretionary approach. For example, regarding the disposal of nonperforming loans, the administration refuses to address the basic problem with a rational and consistent policy, instead merely applies band-aids here and there as the occasion demands—as in the bailout of a failed bank and supermarket chain. According to the rules, it should be calling for the full disclosure of bad loans, prompting the shoring up of write-off reserves, using public funds to make up the shortfall, and putting the failing banks under government control. The government needs to apply these rules strictly across the board in order to make a clean sweep of the moral hazard looming over Japan. Eliminating administrative discretion and political interference and applying the rules of capitalism consistently is a crucial prerequisite of true reform in Japan.

The other rules—the caring rules aimed at socializing risk—must also be fair and transparent. That means putting an end to the traditional LDP manner of socializing

risk, as by keeping small businesses afloat and constituents employed with the special subsidies finagled through political clout. It means first seeing to it that unemployment compensation, pensions, and key social services like education and day care are reliably provided and then reforming the entire social welfare system to ensure that benefits are distributed equitably to those in need (9).

The policies I have just described are also those of the social democratic parties of Europe, where they are referred to as the ‘third way.’ The appellation suggests an alternative to both the welfare state built by the old social democrats (the ‘first way’) and the cold-blooded capitalism of Thatcherism (the ‘second way’)—that is, an economy in which market vitality coexists with a respect for humanity.

As a viable alternative to the LDP, the Japanese people need a party that can offer a third way tailored to the nation’s realities. Problems that Japanese social-democracy must tackle are two-fold. In Japan, we would have to call the first way LDP-style government for vested interests, and the second way American-inspired Koizumi reform. The next phase, then, should be a system that rests on the two pillars of a transparent, fair market and socialized risk to protect the health and welfare of the people—a Japanese third way.

## **2) Elaboration of a Notion of Equality**

In order to pursue this way, we should elaborate a notion of equality. As Norbert Bobbio says, equality is still the most important watershed between left and right (10). In the current political climate, equality is closely connected with the LDP-style safety net, even though it is corrupt and inefficient. For this reason, Koizumi’s agenda still appears meaningful for ordinary people who are deeply frustrated by pork-barrel politics.

In criticizing Japanese-style social-democracy, they insist that the safety net provided by the LDP and the bureaucracy has brought about an equality of results and made Japanese society less attractive because talented people have no incentive. However, few politicians today on either the left or center-left cling to equality of results. In Japan, equality of results cannot be a policy goal either.

What we now urgently need in Japan is equality of opportunity. Social Darwinism has become prevalent in Japanese society, making it a laboratory for the pro-competition policy favored by the neo-liberal agenda. However, Social Darwinism in 21<sup>st</sup> century Japan has nothing to do with any kind of equality, because a huge gap at the starting line is embedded in the neo-liberal agenda. First of all, income gaps have increased since the 1990s. In addition, cutbacks in public services in the Koizumi reforms are making education and medical care precious goods that ordinary people cannot afford. It is evident that Koizumi's structural reforms exclude those who do not belong to competitive sectors.

Although the symbol of equality sounds obsolete in policy debate in Japan, it is possible to establish a public consensus about the importance of equal opportunity and fair competition. Without affordable public services for education, medical care and pensions, we will never be able to participate in economic competition, and equality of opportunity will come to naught. In order to sustain a society where one can pursue self-realization at one's own responsibility, such social infrastructure is indispensable. In other words, the government should take a larger role in assuring social opportunities for everyone. Thus, the opposition should not hesitate to propose the symbol of equality vis-à-vis Prime Minister Koizumi's neo-liberalism. The future of Japanese politics depends on whether the Democratic Party can run the risk of antagonizing the Koizumi

government.

## Notes

- (1) For an overview of the lost decade of Japanese politics, see J. Yamaguchi, 'Nihon Seiji no Ushinawareta junen wo furikaeru' (1,2) *UP*, August and September 2003.
- (2) Toru Hayano, a staff writer at the Asahi Shimbun newspaper, points out that former prime minister Kakuei Tanaka, once the most powerful LDP leader, absorbed the socialistic farmers union into his constituency. Apparently, equality was a driving force for rural LDP politicians. Hayano, *Tanaka Kakuei to Sengo no Seishin*, Asahi Shimbunsha, 1995.
- (3) Masaya Kobayashi, *Seijiteki Onkoshugiron*, Tokyo Daigaku Shuppankai, 2000, Chapter 4.
- (4) Most political corruption cases in Japan have been closely related to bureaucratic discretion. See, Yamaguchi, 'Political Reform in Japan', *Japan Review*, Autumn 2002.
- (5) Kobayashi, 'Onkoshuigiteki Seitou to Senkyoseido Kaikaku', *Chiba Daigaku Hougaku Ronshu*, July 2003.pp.243-260.
- (6) Yamaguchi, 'Tou Kaikaku no Seijigaku' in Yamaguchi and Ishikawa ed., *Nihon Shakaitou—Sengo Kakushin no Shiso to Koudou*, Nihon Keizai Hyouronsha, 2003.
- (7) Rapid economic growth virtually assured improvements for almost every sector in Japanese society. The left did not have to contemplate issues such as redistribution and the welfare state. Yoshinori Hiroi, *Seimei no Seijigaku*, Iwanami, 2003, pp.80-83.
- (8) Atsuo Ito, a former secretary-general of the Democratic Party, clearly describes the limits of that party in his book, *Seito Houkai*, Shinchosha, 2003.



(9) Naohiko Jinno, *Ningen Kaifuku no Keizaigaku*, Iwanami, 2002, chapters 5 and 6.

(10) Norberto Bobbio, *Left & Right*, Polity Press, 1996, pp.29-37.