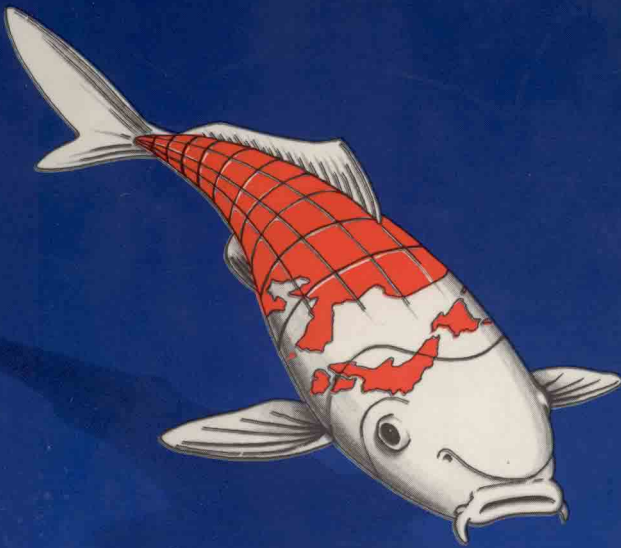


REGIME ***SHIFT***

Comparative Dynamics of the
Japanese Political Economy



T. J. PEMPEL

REGIME SHIFT

COMPARATIVE DYNAMICS OF THE
JAPANESE POLITICAL ECONOMY

T. J. PEMPEL

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PREFACE

Changes, like nettles, are toughest to grasp when at their ripest. No matter how earthshaking or trivial any transformation may appear in hindsight, in its midst, we can be overwhelmed by their apparent randomness, magnitude, complexity, and incomprehensibility. Even in the face of undeniable newness, moreover, it is often tempting to dismiss what is new as trivial, falling back on the truism that “the more things change, the more they remain the same.”

This book tries to grasp the nettlesome transformations taking place in Japanese politics and economics at the end of the twentieth century. These are complex, consequential, and certain to result in substantial alterations in Japan’s political economy. Yet, they are equally unlikely to sever Japan’s future completely from its past. The truly challenging questions surround the *particular* fusions of changes and continuities.

Historical sensitivity is vital to understanding Japan’s present flux. To comprehend Japan’s current dilemmas, we must understand why for such a long period over the postwar years, its political economy was so dramatically different from that of other democratic capitalist countries. Japanese democracy resulted in an unusual thirty-eight years of single-party conservative rule. The Japanese economy delivered growth rates roughly double those of the other capitalist countries. And Japan’s conservative governance resulted not in the gaping income inequalities of other conservative capitalist countries but in a socioeconomic equality more akin to that within the social democracies. It is as shifts from these fundamental anchoring points that Japan’s current changes are best understood.

By the early 1990s Japanese successes had morphed into a sudden ending of single-party rule, the collapse of the ever-expanding economic bubble, and rising social inequality. Structures and practices that had for decades allowed Japan’s political economy to adjust to an unending stream of external challenges suddenly met conditions with which they could not cope. As Japanese political and economic elites struggled to deal with the tumult of the 1990s, they, and those observing

them, confronted fundamental questions about the viability of Japan's well-entrenched institutions. Had these "unique" and seemingly deep-rooted institutions been no more than artificial constructs of "catch-up developmentalism," the cold war, or presumptively phenotypical "Asian values"? Were these seemingly impregnable institutions only feeble breakwaters in the face of a tsunami of globalization? Were the same forces that had McDonaldized much of the world's eating habits exerting a similarly eroding effect on the institutions and practices of Japan's political economy?

These broad questions can be best answered by situating Japan in a comparative perspective. Dynamics in other major industrialized countries provide necessary perspective on the depth and direction of changes in Japan. Narrowly country-specific efforts to make sense of each and every particular event often fail to capture broader trends. Conversely, when events are funneled through the narrow ideological filters of neoclassical economics, principal-agent games, or normative democratic theories, nuance gives way to doctrinaire arguments about pending inevitabilities. Japan has hardly been alone in confronting the apparent failure of institutions to perform as they once did; major redirections were under way in numerous other countries during the late 1980s and early 1990s. Situating the Japanese experience on a spectrum of shifts in other countries promises far greater understanding of Japan's particularities as well as an enriched appreciation of the changes occurring elsewhere.

For too long the study of comparative industrial democracies has relegated Japan to an outer ring of irrelevance, much as medieval mapmakers filled the borders beyond what they knew firsthand with pictures of dragons and other strange beasts. This book, although it is empirically weighted toward an examination of various "Japan problems," offers an argument that transcends country specificity. I have relied on important work in comparative politics and comparative political economy to provide perspective on Japan's problems and choices. I hope this perspective will both benefit those who trace the nuances of Japan's day-to-day developments and will move Japan to a more central place in the theorizing of those primarily concerned with North America and Western Europe.

This book strives more to present new interpretations than to advance hitherto unknown empirical material. I have tried to provide sufficient interpretive insight so that specialists on one or another aspect of the broader story will be tolerant of shortages of detail. At the same time, readers not steeped in Japanese social and economic history will find sufficient factual material and contour maps to appreciate the otherwise unfamiliar landscape.

Not surprisingly, completion of this book has taken far longer than I had originally expected. The protracted work in preparing it was made far less onerous by the criticisms, help, and suggestions of many generous friends and colleagues. My greatest overall debt is to Peter Katzenstein, whose blend of friendship and penetrating questions has provided me with a continuing, provocative seminar for nearly half my lifetime. More immediately, he read three drafts and provided considerable

input in clarifying the overall argument. Had Peter chosen a career in horticulture, he would clearly have been a master at creating the complex symmetries of an English or a Japanese garden rather than the unstructured berry patches of the Pacific Northwest.

I also owe a considerable debt to David Asher, Gerald Curtis, Ron Dore, Sheldon Garon, Miriam Golden, Walter Hatch, Ikuo Kume, Joel Migdal, Richard Samuels, Michael Shalev, Wolfgang Streeck, Sidney Tarrow, Keiichi Tsunekawa, Kozo Yamamura, and an anonymous reader. All provided me with the kind of detailed comments and criticisms that make authors appreciative of the embarrassments from which they have been saved by the ability to scrap or redraft their original formulations.

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Seattle, Washington

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Long Continuities, Radical Shifts

In the late 1990s the Japanese political economy was sharply different from what it had been two or three decades earlier. Thirty-eight years of electoral dominance by the Liberal Democratic Party (LDP) had ended with the party's internal fragmentation, its loss of a parliamentary majority, and the subsequent scrambling of the entire party system. In July 1993, the handsome, youthful descendant of a long-standing samurai family, Hosokawa Morihiro of the Japan New Party, cobbled together an ideologically disparate, seven-party coalition that made him Japan's first non-LDP prime minister since 1955.

Soon thereafter, the Social Democratic Party of Japan (SDPJ; previously the Japan Socialist Party, JSP), long the LDP's *bête noire*, and standard bearer for a radically different array of policies, ended nearly fifty years in the political wilderness as its leader, Murayama Tomiichi, became prime minister in coalition with the LDP and a small conservative party, Sakigake.

The mid to late 1990s were marked by a jumble of new parties. After twenty-five years of exceptional electoral and party stability, parties split and recombined with the speed and unpredictability of amoebae, but totally without policy or socioeconomic logic. Although the LDP reemerged as the nation's largest party and regained cabinet control following elections in 1996, it was not the same party it had been, nor did it enjoy any of its once sweeping dominance.¹ The national bureaucracy, once lauded for its internal cohesion, the quality of its decision making and personnel, and its predominance in policymaking, was scarred by an series of policy failures, revelations of self-indulgent bribe-taking and collusive information divulgence by top civil servants, the humiliating arrest of dozens of its top personnel, and a dwindling capacity to shape macroeconomic or individual corporate behavior.

Economically, the changes were equally striking. Four decades of unprecedented growth, from the early 1950s until the end of the 1980s, came to a sudden halt with

the simultaneous collapse of both stock and land prices; seven years of slow-to-no growth; the massive collapse of numerous financial institutions; at least \$600 billion in unrecoverable loans; an international downgrading of Japanese bonds; and a huge explosion of public debt. Numerous banks and corporations, once touted as world beaters, swam in red ink and pleaded for life preservers from the government. Others, which only twenty-five years earlier had been almost exclusively dependent on the domestic market, were heavily invested in production and marketing facilities throughout the world, remaining Japanese more in name than in personnel, production facilities, or corporate alliances. For many of these the power game in Tokyo had become but a sideshow next to the more compelling worldwide power plays in which they were involved.

For most of the postwar period, Japan had differed considerably from the other OECD countries. Politically, a single conservative party dominated Japan's electoral and governmental spheres in ways unmatched in any other industrialized democracy—two-to-one majorities over the next largest party; complete control of virtually all cabinet posts; and government influence over wide swathes of the economy.

Economically, Japan was also without parallel. National growth rates were typically double those of other OECD members; labor productivity in manufacturing was far greater; unemployment and inflation were dramatically lower; current-account surpluses increased more quickly; the currency strengthened geometrically; savings rates remained consistently higher; overseas investments and holdings exploded more dramatically; and the country demonstrated a much greater ability to adjust to international economic crises. Its successful dexterity shocked the rest of the seemingly less flexible industrialized world.

The end to high growth and predictable politics made Japan the subject of serious debates, both internally and abroad. Was its political economy actually changing at some deep and substantive level? and if so, what was the character of that change? Had global economic forces and domestic changes begun to propel the country toward some "normality" that presumably prevailed among other industrialized countries? Or was the political and economic turmoil merely a series of unpleasant and disruptive speed bumps to be followed by a return to some smoother, "essentially Japanese" system. Were the tides of change meaningful, deep, and real (*honno*), or were they merely cosmetic disguises (*tatema*) masking some unchanging core?

Such questions form the puzzle at the start of this book: Japan, so distinctive from the other industrialized democracies for so long; and Japan in the 1990s, so different from its own recent past. The Japanese specifics, however, are particular manifestations of much more general puzzles.

First, why do political economies differ from one another? What accounts for the multiple and distinct historical trajectories followed by individual nation-states? More perplexing is the question, Why do these distinctions remain in effect for so long; why do they not all converge on some version of "best practice"?²

Equally perplexing is the problem of social change. For most countries last year's behavior typically offers a good predictor of next year's. Social behavior is largely

“path dependent.” Where one is at time t_2 will be largely a function of one’s location at t_1 . Where a country is now will, to some extent, always reflect where it has been in the recent past. Yet even the most “stable” countries, having followed the most consistent patterns for sustained periods of time, periodically lurch onto paths quite at odds with the one long traveled. Following such deviations, similarities to the past are less striking than are the breaks from it. Path-dependent equilibrium is periodically ruptured by radical change, making for sudden bends in the path of history.

“Punctuated equilibrium” is the term often used to characterize such mixtures of long continuities followed by dramatic shifts. Examples include the period of agricultural protectionism and Conservative rule in Britain before the repeal of the Corn Laws in 1846, followed by generations of enhanced democratization, freer trade, and Whig and Liberal rule; Germany’s long period of authoritarian modernization and expansion culminating in the Third Reich, its destruction, and the subsequent German embrace of pacifism, parliamentary government, and the enhancement of personal wealth; the era of Manchu rule followed by nearly a century of chaos and civil war before the successful imposition of communism under Mao Tse-tung, and then the dramatic if tempered embrace of selective elements of capitalism after 1978; Argentina’s long succession of military coups, the terrorist period of “desaparecidos,” and the subsequent wave of democratization and party rule; or the long Republican predominance and unabashed pro-business policies in the United States from the great depression of the late nineteenth century until the Depression of the early 1930s—followed by the subsequent period of New Deal social welfarism that prevailed until at least the mid-1960s.

Such instances illustrate how individual countries can quite suddenly veer from a predictable path to an alternative direction. Why they make such changes is less obvious than the fact that they do. Such breaks with the past are comprehensible when they follow some unquestioned failure; they are far less understandable when the original path offered continuing rewards.

Such debates about continuity and change recur regularly in studies of the industrialized democracies.³ Two competing interpretations are constantly at odds: those that focus on historically generated differences among countries, and those that focus on the presumed or anticipated uniformity of such countries in the face of one or another presumably homogenizing global force.

Debates over the relative predominance of domestic and international forces have gained renewed currency since 1980. The end of the cold war, the multinationalization of capital and manufacturing, diffusion of best practices, growing international trade and investment, generic globalization, privatization, deregulation, tax constraints, checks on welfare and public employment, and even the alleged “end of history”—these are but a few of the suggested forces seen as pressing for convergence among the advanced economies.

Many observers had, of course, earlier suggested that one or another “transnational” force would obliterate important differences among nation-states. In the nineteenth century it was Karl Marx, Herbert Spencer, and Henri Saint-Simon;

more recently it has been Charles Kindleberger, Clark Kerr, Raymond Vernon, and Daniel Bell.⁴ Whatever the specific force identified—class conflict, technology, markets, capital flows, communication—the underlying presumption is that existing distinctions among countries will disappear and that the world will give way to greater political and economic homogenization.

Contemporary Japan is a particularly suggestive window through which to examine these interlaced problems. From the last third of the nineteenth century through its defeat in World War II, Japan followed a historical trajectory broadly consistent with Germany, Italy, Spain, Austria, and other late industrializers. Political conservatism, militarism, and (for most) external expansion were the hallmarks. But over the subsequent four to five decades, Japan pursued a different path, one dramatically at odds with its own prewar history. Moreover, that new path was characterized by a combination of politics and economics that distinguished Japan from all other industrialized democracies.

In one broad sense, of course, postwar Japan looked quite like these other countries. Electoral democracy, capitalist economies, high levels of industrial productivity, and standards of living dramatically better than those enjoyed by the bulk of the world's citizens, defined all of the twenty-odd capitalist democracies as a cluster distinct from the other 150 or so countries of the world.

Yet, even though at such a level the industrialized democracies look similar to one another and different from the remaining countries, closer scrutiny reveals important differences among them. Postwar Japan was by far the most unusual. From the 1960s into the mid-1990s, Japan had no evident “siblings” such as it had during the prewar period with Germany, Italy, or Austria.

For long periods during the years after World War II, France and Italy formed a pair, as did New Zealand and Australia; Sweden, Norway, and Denmark formed a group, as did the Benelux counties. The Anglo-American countries differed from continental European democracies. Yet Japan stood far apart from them all. It was never easily paired with any other industrialized democracy,⁵ a point symbolically typified by the way in which official photographs of leaders from the G-7 invariably showed six Western leaders clustered together in a (perhaps artificial) show of equality and friendship, while Japan's various prime ministers lingered on the fringe.

Yet, by the late 1990s Japan had departed from its earlier self. The sudden shifts represented by the loss of LDP hegemony, the new electoral system, radical alterations in the party system, an overall decline in the country's economic performance, and, finally, internal structural changes in finance, employment, and manufacturing—all underscored Japan's departure from its path of the preceding forty years. This change was unmistakable, whether or not one believes that the country was becoming similar to the other democracies.

Thus postwar Japan fits into the debates about comparative capitalism and potential convergence in two significant ways. First, Japan enjoyed a long-standing period of internal consistency in its political economy; yet this was a political economy that was organized and that behaved quite differently from those of the other

industrialized democracies. Second, as Japan approached the end of the twentieth century it had undergone substantial changes. In this regard, contemporary Japan offers three layers of comparison: the differences between it and other democracies, its own changes over time, and its convergence or distinctness.

The Japanese Difference

Two overriding puzzles encapsulate Japan's striking differences from the other industrialized democracies; one is political, the other economic. At the political level, the fundamental question concerns the longevity of the ruling Liberal Democratic Party (LDP). From 1948 until 1993, all but a handful of cabinet positions were held either by LDP parliamentarians or by those from predecessor parties. For nearly forty years after its genesis, the LDP maintained roughly two-to-one parliamentary majorities over the next largest party, the Japan Socialist Party (JSP). At the local and prefectural levels, conservative preeminence was even greater. Not until the 1989 elections did the party lose its majority in the upper house. In the more powerful lower house the LDP held unchallenged majorities for four additional years. The 1948–93 period gave Japan by far the longest epoch of conservative electoral continuity and dominance of any modern industrialized democracy.

Although the LDP regularly won most elections, it hardly enjoyed the unquestioned affection of the Japanese citizenry, at least if public opinion polls are an accurate guide. These show that the high point of LDP popularity was never much above 40 percent, a figure reached in 1960. A rather steady decline to a low of about 25 percent followed into the mid-1970s. From then on, citizens identifying themselves as nonpartisan outnumbered LDP supporters.⁶ All democracies experience episodes of government unpopularity; however, the Japanese numbers are strikingly low, especially since the party never lost power despite its apparent lack of overwhelming popularity.

Nor did the LDP enjoy a reputation for selfless governance. Monumental scandals permeating the highest levels of politics broke at least once every five or six years—Shōwa Denko, the Black Mist, Lockheed, Recruit, and Sagawa Kyūbin, to mention only the more notorious. Japanese citizens did not simply accept these with a cynical tolerance of “politics as usual.” Following each scandal, the party's popularity would plummet, the media would lead an array of public bodies in calls for an end to “money politics,” reforms would be proposed, and pundits would inevitably suggest, with apparently total historical myopia, that “this may well mark the end of conservative rule.”⁷

At such times, including the case of Prime Minister Sato in April 1972, Prime Minister Tanaka in September 1974, Prime Minister Ōhira at the end of 1979, or Prime Minister Miyazawa in the summer of 1993, public support plunged to percentages in the low teens or to single digits, and these prime ministers became even less popular than the party they headed.⁸ In virtually any other democracy, such numbers would surely have portended a loss of power, even if only for a perfunctory

period of penance in the oppositional wilderness. Yet in the elections following the first three of these surveys, the LDP won 55, 49, and 57 percent of the seats in the lower house.⁹ Only in 1993 did unpopularity finally translate into the loss of electoral control over the important lower house, and this loss resulted from the LDP's internal splintering rather than from a massive voter shift to the opposition.

Such conservative continuity is puzzling because throughout the postwar years Japan has had well-institutionalized democratic political processes: a well-read and independent press, an informed electorate, open competition among an ideologically diverse array of political parties, a plethora of autonomous interest associations, and elections that, by any comparative standard, have been free, competitive, and energetically participatory. Indeed, one survey of comparative democracies done in the mid-1960s ranked Japan seventh out of twenty-three countries studied, ahead of such classic examples as the United States (sixteenth), Denmark (eleventh) and New Zealand (tenth).¹⁰

Surely, if Japanese democratic institutions had constituted a powerful check on government, at least once or twice during their forty years of rule the conservatives should have been thrown unceremoniously from office, however briefly. Alternatively, even if voters did not revolt, internal LDP differences should perhaps have led to internal fragmentation and some temporary ejection from power. The question thus posed is relatively straightforward but critical: why, as has happened in every other democracy on at least one and usually on far more numerous occasions during this period, did Japan's conservative rulers stay so well entrenched in power? The LDP performed like an Olympic team against a high-school junior varsity. The magnitude and duration of its dominance was without parallel.¹¹

A number of other features set Japan off from the other democratic countries. The socioeconomic base of conservative rule in Japan was unparalleled in the postwar industrial world, dependent as it was on an alliance among big and small business as well as organized agriculture; meanwhile, organized labor was more systematically marginalized in national policymaking than in any other industrialized democracy. Nor did Japan's peculiar electoral system have any clear parallels. Furthermore, the government bureaucracy was, per capita, the smallest in the industrialized world, even though it exerted an unusual array of powers.¹² Japan's mixture of public policies, including economic protectionism, small government, high reliance on occupation-based social welfare programs, and its strong reliance on bilateral military ties with the United States also differentiated Japan from most other democracies. In short, Japan was politically anomalous.

The second puzzle is economic: why was Japanese capitalism so much more successful than capitalism in the other industrialized democracies? How did the country, for nearly forty years from 1952 to 1990, manage to achieve GNP and productivity increases roughly double those of the OECD average? From 1950 until the early 1970s this figure was a phenomenal 11 per cent. This undeniably amazing period is understandable in light of the severe devastation suffered by Japan's industrial capabilities during World War II, the shifts in the labor force, the subsequent freeing up of surplus demand and latent productive capabilities, and the overall ex-

pansion in world trade. Far more astonishing was the Japanese performance over the subsequent decade and a half.

Following the collapse of the Bretton Woods system of stable exchange rates in 1971 and the massive increases in world oil prices in 1973, the industrialized democracies saw their economic boom of the preceding two decades come to an end; they faced instead a hitherto unfamiliar mixture of slow growth, high inflation, budget deficits, unemployment, and stagflation. Virtually every one of these countries, regardless of ideological composition, went through sustained periods of economic anemia and an alleged “ungovernability” that saw virtually all incumbent governments forced from office.¹³

In contrast, the Japanese economy went through a short but painful adjustment and soon resumed—although at a slower rate—its dramatic outpacing of the other democracies on virtually every measure of economic success.¹⁴ Accompanying this growth, once again roughly double the average of the other democracies, were low unemployment, low inflation, geometric increases in labor productivity, a continually strengthening currency, trade successes, high savings rates, increases in the current-account surplus, and rapid improvements in per capita income and standards of living.

Actual economic performance was only one way in which Japan operated according to a totally different calculus. The organization of Japan’s firms, the links between labor and management and between banks and manufacturers, the peculiar balance between products exported and products imported, and the unusual export dependence on the U.S. market all marked Japan as operating something other than a “more successful” capitalism. Rather, Japan was practicing a categorically different species of capitalism.¹⁵

These two puzzles—the electoral and governmental success of conservative politicians and the economic success of Japan’s businesses—are integrally related. As I will try to demonstrate, they can best be understood neither within a self-referentially “Japanese” context nor as two isolated problems of “politics” and “economics.” They form a single riddle: one cannot understand the unusual character of Japanese politics during this period without understanding its economics, nor can Japan’s economy be understood in isolation from its politics.

Several components of these two overarching puzzles make the apparent exceptionalism of Japan’s political economy even more nuanced and complicated. One particularly perplexing question is why, following nearly forty years of uninterrupted conservative rule, Japan’s social policies looked like those of no other nominally “conservative” regime. The country was marked by numerous and striking exceptions to the pro-business, anti-welfare policies associated with “traditional” conservative politics. Three such exceptions are particularly noteworthy.

First, in most countries, consistently low unemployment figures have been highly correlated with the enduring effectiveness of organized unions in the marketplace and the persistent strength of the political left in parliament.¹⁶ Japan was almost a singular exception. Despite long-standing conservative political rule and socialist and union weakness, Japan’s unemployment levels remained consistently among

the lowest of the industrialized democracies. In the 1950s and early 1960s, rapid growth worldwide, cheap energy, declining transportation costs, faster communication, and a host of other factors combined to give almost all of the industrialized democracies low unemployment. Yet, by the mid-1970s unemployment rates steadily escalated, jumping even higher in the late 1970s and early 1980s, often-times reaching 12–15 percent or more of the working population.

Only five major countries stood as exceptions, countries which Goran Therborn argues evidenced an “institutionalized commitment to full employment.”¹⁷ One of these, conservatively ruled Switzerland, had a ready if only partial solution to the employment problem in its small country: it deported 10,000 of its foreign guest-workers, “solving” the national employment problem with a series of train tickets. The remaining three, Sweden, Norway, and Austria, were countries with long-standing, left-of-center governments, ongoing public commitments to full employment, extensive nationalized industries, and large public sectors that served as the “employer of last resort.”

Conservative Japan’s adherence to similarly low levels of unemployment with no major layoffs thus made it a conspicuous ideological outlier. Even in the early 1990s, following the bursting of the economic bubble, the chaos wrecked on the financial sector, declining profit margins in manufacturing, and the presence of many “troubled industries,” Japan did not experience massive job losses and severe belt-tightening. Firms explicitly resisted emulating even the minor labor retrenchment measures they had pursued during previous recessions.

Nor was Japan’s employment commitment fulfilled through reliance on expanded public employment. Instead, from the early 1970s into the 1990s, virtually all of the country’s new jobs were generated within the private sector. Japanese unemployment remained low as a result of the maintenance or expansion of “real” and “productive” private-sector jobs, rather than by jumps in the “less productive” but more politically plastic public sector, such as took place, for example, in Austria and Sweden.¹⁸ By the mid-1990s Japan experienced a slight increase in unemployment (and a decline in the number of jobs available for new entrants to the workforce), giving rise to worries about a national “hollowing out.” Yet even then Japan’s official unemployment rate never rose much above 4.2 percent, a rate that, even if it understated reality, and even if increasingly high by Japanese standards, was unquestionably several percentage points below what is happily accepted as “full employment” in the labor markets of conservative economies such as the United States, Britain, or Canada. Thus, for the bulk of the postwar period, on the key issue of employment Japan was a stark exception to the expectations usually associated with the combined image of “pro-business, anti-worker” conservatism.

A second facet of Japan’s unusual policies relates to the nation’s broad income equality. For most of the postwar years, Japan was extremely egalitarian.¹⁹ In a famous study of income equality in ten major countries, Malcolm Sawyer found Japan to be the second most egalitarian country before taxes and the fourth most egalitarian after taxes.²⁰ For the period 1978–82, David Cameron found that of eighteen OECD countries, Japan ranked as the third most egalitarian in distribu-

tional equality, behind the Netherlands and Belgium and just ahead of Sweden. Of the countries studied, Japan was the only one of the top eleven countries that had no social democratic or labor party participation in government from 1965 to 1981.²¹ Imada Takatoshi in a different longitudinal study found that Japan's Gini index registered a dramatic improvement in equality from 1963 until 1970, a slight reversal around 1975, and then a relative leveling out during the bulk of the 1980s.²²

In addition, the gap between the income going to Japan's top 20 percent and that going to its bottom 20 percent was also low, a similar indicator of intragenerational equality. Martin Bronfenbrenner and Yasukichi Yasuba, Sidney Verba and his associates, Yutaka Kosai and Yoshitaro Ogino, and John Freeman all found similar results using different time periods.²³ Finally, as Yasusuke Murakami notes, Japan's equality was even more striking when distributions are adjusted to place greater emphasis on the income shares of the lowest brackets: in effect, Japan's poor have been relatively less poor than in most other industrialized countries—Japan simply has no semipermanent underclass of significant size, no standing army of the unemployed.²⁴ The growth of Japanese capitalism did not entail yachts for executives, massive corporate dividends to stockholders, and layoffs and downsizing for the workforce. Conservative politics did not generate the same economic tradeoffs as in North America or Western Europe.

Nor is Japan's "equality" a disembodied artifact of income statistics alone. In numerous other areas, such as education, infant mortality, crime, health care, caloric intake, and so forth, Japan has been strikingly egalitarian since the 1950s. Daily life in Japan is far less differentiated by class than it is in most "conservatively ruled" countries. Similarly egalitarian are figures on the distribution of capital goods such as cars, refrigerators, color televisions sets, telephones, and even computer games for children. It is little wonder that 90 percent of Japan's citizens typically identify themselves as middle class.²⁵

Virtually all comparative studies of industrialized democracies demonstrate that on the question of income equality, Japan resembles social democratic Sweden or Norway more closely than more conservatively governed countries such as Canada, the United States, the United Kingdom, or Italy. The fundamental question is, Why is politically conservative Japan so socially egalitarian?²⁶

A third anomaly concerns labor conflicts. Japan has been widely applauded for its allegedly harmonious labor-management relations. Indeed, Japanese writers typically cite that trait, along with "permanent employment" and "seniority based wages," as one of the three golden treasures of Japan's "unique" and "traditional" labor-management relations. Yet, in comparative terms, such harmonious relations have been relatively unusual within conservatively governed countries.

As Walter Korpi and Michael Shalev have demonstrated, labor harmony in most highly industrialized countries has come on the heels of burgeoning union strength combined with left-of-center political control over the executive branch of government. Labor's political strength transports conflicts of interest between labor and management from the factory arena to the political arena. In effect, managers who might have had strong bargaining positions at the factory level cannot exploit them

to the fullest without encountering opposition from political officials who consider such settlements too “one sided.” Typically, therefore, left-of-center victories and the growth of unionism lead to less industrial conflict. Public policies shift to meet labor demands and to curtail the unbridled political power of management.²⁷

Unlike labor quiescence in most of Europe, Japanese labor peace was never the result of a breakthrough in the political power of labor; on the contrary, it came after a steady and stunning diminution in the power of Japanese labor and the Japanese left. From a high of about 50 percent in 1950, Japanese unionization rates fell to 23 percent by the mid-1990s. This decline is a clear exception to the pattern among OECD countries. Worldwide unionization rates increased uniformly from the 1950s into the late 1960s and early 1970s, and as Jelle Visser shows, from the early 1970s on, only three countries experienced substantial declines in unionization rates—the United States, France, and Japan.²⁸ The decline in Japanese unionization and militancy owes more to labor’s national political weakness than to its having somehow won a series of institutional rights.

Hence, the image of Japan as unswervingly conservative must confront several empirical curiosities. In key areas such as unemployment, income distribution, and labor-management relations, the nation’s political economy defies the broad policy experiences of other conservatively governed countries. Japanese conservatives followed a path that seemingly contradicts accepted images of conservatism and right-of-center government. Certainly, neither the Japanese government nor Japanese managers pursued the more draconian, class-riven policies undertaken by conservative regimes in the United States under Ronald Reagan and George Bush or in Britain under Margaret Thatcher and John Major, or even the more moderate adjustments carried out in Germany under Helmut Kohl.²⁹

Many aspects of Japan would appall a committed social democrat, a libertarian, or even a moderate pluralist.³⁰ The point here is neither to praise nor to criticize the Japanese political economy; rather, it is to point out how anomalous many of its characteristics are for a country that has long been ruled by a nominally conservative political party. Japan’s behavior hardly fits what might be expected cross-nationally. If the Japanese economy offers a different version of capitalism, Japanese politics presents a different version of conservatism.

For the study of industrialized democracies to be comparatively meaningful, such fundamental puzzles about the Japanese political economy must be confronted as more than Asian or Japanese “idiosyncrasies,” the temporary but ultimately transient consequences of “late industrialization,” “Confucian culture,” or “conservative paternalism.”³¹ This demand is as salient for the single-country specialist as for the generalist devoted to a comparative understanding of political economies.

Even a static comparison of Japan’s political economy with those of the other industrialized democracies presents a daunting problem. But the difficulty is further complicated by fluctuations in Japan’s postwar political economy, which far surpass the simple variations found in any dynamic society. By the 1990s Japan’s overall political economy had grown vastly different from what it was in the 1950s, 1960s, or 1970s. These differences too demand analysis.