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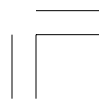
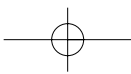
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Public Works in Japan



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YOKOYAMA Nokku, and in
Western names the family
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Gary GLITTER.

Romanization

Due to software limitations
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The logo for this issue on public works is the *tetorapotto*, a ubiquitous reminder that Japan is the “land of construction.” Originally a French invention, *tetorapotto* has come to mean any form of concrete used to protect coastlines, construct artificial piers, and strengthen riverbeds. For decades, the central government has decided how and where public works projects (many of which include *tetorapotto*) will be developed. In recent years, however, a heated public debate has surrounded new projects. Two of the main points being discussed in Japan today are: what should be the scope of public works and who decides about the specifics of particular projects? The articles in this issue tackle these questions head on, providing a range of views on how public works projects are planned and financed, the various procedures related to them, and the role in the decision making process of those directly affected by projects.

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Public Works at a Crossroads

IGARASHI Takayoshi

Public works projects have long been an area that interests the Japanese people. Once public works projects were like a magic wand that could bring them happiness. The Shinkansen (bullet train) brought high-speed travel. Dams brought cheaper electricity. What is more, these projects meant jobs and enormous profits for the construction and related industries. However, recently an increasing number of Japanese have begun to criticize public works projects.

Major construction companies have borne the brunt of the current economic slowdown and are desperate to receive more public works contracts. The construction industry, composed of over 560,000 construction companies which directly employ six million people and indirectly provide employment for over ten million more, depends on public works. Every year, the construction industry joins hands with its allies in the Diet to obtain fifty trillion yen from the public coffers, which are of course, are controlled by the bureaucracy. As is well known, these Diet members receive "votes for cash" while the bureaucrats are assured a place of employment after retirement (*amakudari*). This "iron triangle" continues to thrive today.

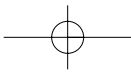
Recently scholars, the media and financially strapped local governments have joined the triangle and added their voices to the chorus calling for more public works projects. Former Prime Minister HASHIMOTO tried to put a brake on public works expenditures. But in response to demands from this expanded iron triangle, his successor, OBUCHI Keizo, went on a spending spree. Obuchi distributed large amounts of funds for public works projects in the name of "pump-priming measures" in late 1998 and early 1999. As a result, the Japanese economy began to show signs of improvement in the summer of 1999.

However this is not an overall economic recovery but rather a temporary upswing. The Japanese economy today is akin to a junkie who has just received a shot. While things feel good now, when the effects of the drug run out, withdrawal symptoms will occur and the addict will demand more and even stronger drugs. Thus the vicious cycle will continue on an even larger scale. The plethora of projects has already led to huge deficits for both the central and local governments. As bonds have been continually issued to finance more public works, the combined debt of the national and local governments has increased to over 600 trillion yen. Consequently, the central government now has to earmark 40% of its annual general budget and local governments an average of 20% of their budgets for debt repayment. The once wealthy Osaka and Tokyo metropolitan and Kanagawa prefectural governments are now on the verge of bankruptcy. From a financial perspective, public works projects have become a nightmare. ➡



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Public Works at a Crossroads *continued*

There is one topic related to public works that must also be urgently addressed. Oceans, mountains and rivers are natural places. However in Japan it has become next to impossible to find either a coastline that hasn't been covered by *tetrapotto* (concrete blocks used to protect coastlines and make artificial harbors), or a river without a dam or a mountain without a planted cedar forest. In urban areas, roads are excavated with the regularity of annual festivals, and ever-taller buildings and deeper subways are being constructed. Against this backdrop, almost all Japanese now seriously doubt the long held premise that public works are universally for the public good.

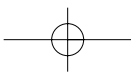
The Inability to Reverse Policy

In recent years, this situation has become even more serious, with members of the expanded triangle clamoring for even larger projects. Among the construction works being promoted is a plan to build two additional bridges linking Shikoku and Honshu on top of the existing three bridges completed in recent years. There are also proposals to extend Shinkansen lines to Tohoku and Hokkaido, Hokuriku and Kyushu and, in what would become the largest public works project of the 21st century, there is a serious plan to move the capital to an area outside of Tokyo.

Japanese citizens have criticized these proposals for several reasons. First, Japan is becoming an aged society. With the economic recession, the Japanese people are more concerned about the future and are controlling their spending, thereby accelerating the economic downturn. As a result, tax revenues have fallen, weakening the social security system that supports the aging society. Indeed, there is doubt whether retirees can expect to receive pensions commensurate to the future premiums they will have to pay. Although the public nursing care insurance program is scheduled to begin in April 2000, it is feared that the premiums for this new plan will be high and the level of services will decline because local governments will continue to be saddled with deepening deficits. Indeed, it is said that the social welfare net provides only the lowest level of support. What is more, as the number of unemployed seeking benefits increases, scarce resources will be stretched even further. If even a small portion of public works expenditures were to be appropriated for social welfare, Japanese people would feel far more at ease. If social welfare projects were implemented, more jobs would be created and the resulting economic wave would bring greater economic effects than construction related public works projects. As a result, personal income would increase in turn, consumption.

Citizens Begin to Act

As the central government continues to delay moving Japan from a "nation of construction" to a "nation of social welfare," the Japanese people are





becoming restive and demanding a change in policy priorities. They are now taking a serious look at the public works projects around them. People are demanding to know why 300 billion yen is spent annually on land reclamation projects when there is a surplus of farmland. They are also asking why huge dams are being constructed if enhanced concrete riverbanks are sufficient for flood control. Yet people are doing more than merely voicing their opposition: they have also begun to hold local plebiscites on the reclamation of bays and the construction of dams. Citizens are now beginning to insist that decisions not be made solely by the Ministry of Construction, but with their participation.

From the start, local leaders and regional assemblies have denied people the chance to express their views democratically. Governors, mayors and members of regional assemblies are parts of the iron triangle of public works and so feel threatened by popular movements. In some cities, active citizens have stepped up their efforts by supporting candidates for local assemblies who will seriously study the feasibility of public works projects. As a result of these efforts, large-scale public works projects now cannot generally proceed without the blessing of local citizens' groups. With these popular movements, Japanese people are beginning to question the paradigms of the postwar period. These include the separation of powers between the legislature, executive, and judiciary. They also include the various relationships that exist between the central government and regional authorities, and those between governors, mayors, local assemblies and political parties. Without question, a new Japan will emerge from this popular activity in the 21st century. □

Public Works Projects and Japan's Public Finances

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Big Public Works, Small Government

Compared to other nations, Japan has a “lean” government structure. As Table 1 indicates, government expenditures as a proportion of Gross Domestic Product (GDP) are the lowest among advanced industrialized nations. However even with this small government, huge sums are spent on public works. Indeed, Japan has the highest percentage of public investment outlays among advanced industrialized countries. It is widely believed that this characteristic of the public finances supported the rapid economic growth of postwar Japan. However if we compare the overall investment structure of the central government, Japan is low on the list of advanced industrialized nations. Of course regional governments have a keen interest in public works, but not because they are initiating them. Rather the central government provides various forms of financial aid to regional governments to encourage projects.

The Reversal of Independent Projects and Government Supported Projects

In the bubble economy that reached its peak in 1990, the traditional system where projects were encouraged by direct financial aid from the central government changed completely. As shown in Figure 1, in the bubble period that began in 1988, independent projects implemented by regional governments without financial aid exceeded those supported with central government aid.

One reason for this change is that in spite of the overall rise in the implementation of public works projects, the Japanese public began to feel that projects were not benefiting their daily lives. Because the central government developed projects in cooperation with representatives of industry, the financial aid was concentrated on projects related to industry. As a result, while public investment was being implemented at this high level, allocations for developments that would improve the quality of people's daily lives were not keeping pace, leading to popular dissatisfaction.

Moreover, American requests to correct the U.S. trade deficit with Japan directly triggered a restoration of independent projects by regional governments. In structural talks between the American and Japanese governments, the U.S. pointed out the shortage of social infrastructure and how it affected the Japanese people. In response to US prompting, Japan promised to spend 430 trillion yen on public works projects in the period between 1991 and 2000.

The Flute is Being Played but No One is Dancing

As becomes clear by looking at Table 2, in the bubble period the finances of



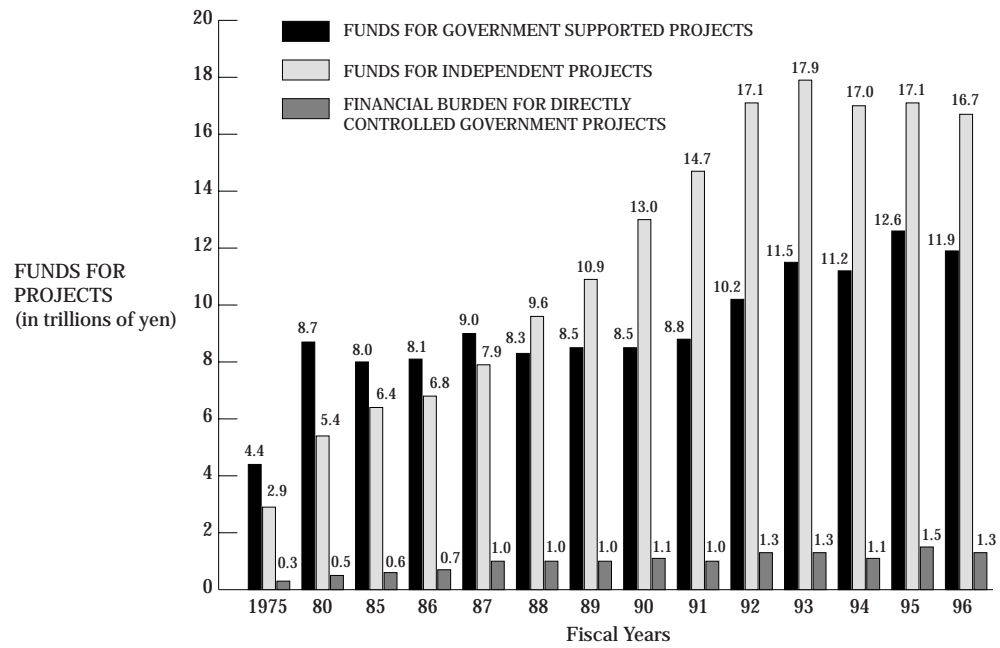
local governments were in the black. This is because their independent projects were not supported by financial aid from the central government but by the issuing of regional bonds. Specifically, the central government encouraged independent public works by allowing regional bodies to issue bonds. With the collapse of the bubble economy in 1991, however, Japan became bogged down in a recession. As the recession dragged on, the central government looked to restore the economy through independent projects implemented by regional governments. As Figure 1 demonstrates, in 1992 and 1993 the independent projects of regional governments quickly increased. Of course this rapid increase in independent projects was accompanied by an increase in the issuing of regional bonds. However economic recovery did not result. What is more, the finances of regional governments became bogged down by debt.

As Table 2 makes clear, in 1994 the debt of regional governments in Japan amounted to 2% of the GDP. Among advanced industrialized nations, Japan was the only country where regional government debt exceeded 1% of GDP. In early 1999, the central government began to expand public works projects in order to stimulate the economy. Yet we must remember that regional governments undertake public works projects. As they are being encouraged to develop new public works projects, regional governments have also begun to restructure their finances to deal with their debt. The central government is playing the flute, encouraging regional governments to develop public works projects. Facing serious financial difficulties, regional governments, however, are not always dancing to the tune of the central government.



Public Works Projects and Japan's Public Finances *continued*

FIGURE 1
Changes in Fund Levels for Independent Projects and for Government Supported Projects



Data : Jichishō [Ministry of Home Affairs], ed. *Chihō Jichi no Dōkō* [Trends in Regional Governance], 1999.

Table 1
International Comparison of Government Expenditures as a Proportion of GDP

		Japan	UK	France	Sweden	Germany	USA
Current Budget Expenditures	Central	6.1	25.6	20.6	29.7	9.9	13.9
	Local	9.7	11.0	7.0	24.1	15.2	13.8
	Total	15.8	36.6	27.6	53.8	25.1	27.7
Capital Structure	Central	1.2	2.2	1.7	4.0	1.7	0.3
	Local	6.6	1.0	2.9	1.6	4.3	1.1
	Total	7.8	3.2	4.6	5.6	6.0	1.4
Net Figures	Central	7.3	27.8	22.4	33.7	11.5	14.1
	Local	16.3	12.0	9.9	25.7	19.6	14.9
	Total	23.6	39.8	32.3	59.4	31.1	29.0

Data : OECD, *National Accounts*, 1997.



Table 2
BALANCE OF SAVINGS AND INVESTMENT AS PERCENTAGE OF GDP

		1987	1988	1989	1990	1991	1992	1993	1994
JAPAN	Central Government	1.9	1.1	1.2	0.3	0.2	2.1	2.8	3.7
	Regional Governments	0.2	0.1	0.6	0.3	0.1	1.1	1.6	2.0
	Social Security Funds	2.8	3.2	3.2	3.5	3.7	3.4	3.1	2.7
	General Government (Excluding Social Security Funds)	0.7	2.2	2.6	3.5	3.4	0.1	1.4	3.0
		2.1	1.0	0.6	0.0	0.3	3.3	4.5	5.7
USA	Central Government	3.8	3.7	3.3	3.9	4.2	5.0	4.1	
	Regional Governments	0.1	0.2	0.2	0.6	0.7	0.6	0.6	
	Social Security Funds	0.4	0.9	0.9	0.9	0.5	0.2	0.2	
	General Government	3.5	3.1	2.6	3.6	4.5	5.4	4.4	
UK	Central Government	1.5	0.4	0.0	1.4	2.0	6.2	7.9	6.9
	Regional Governments	0.3	0.2	0.3	0.1	0.3	0.7	0.3	0.3
	Social Security Funds	0.4	0.7	0.2	0.0	0.4	0.8	0.1	0.4
	General Government	1.4	0.1	0.1	1.5	2.6	6.3	7.8	6.8
GERMANY	Central Government	1.4	1.6	0.5	2.2	3.5	1.8	2.4	1.3
	Regional Governments	0.8	0.6	0.1	0.7	0.5	0.4	0.8	0.7
	Social Security Funds	0.3	0.1	0.8	0.8	0.6	0.1	0.2	0.0
	General Government	1.9	2.2	0.1	2.1	3.4	2.3	3.1	2.0
FRANCE	Central Government	1.9	1.7	1.4	1.6	1.7	3.0	4.5	4.9
	Regional Governments	0.1	0.2	0.1	0.1	0.2	0.4	0.2	0.2
	Social Security Funds	0.2	0.2	0.3	0.1	0.3	0.7	1.4	1.0
	General Government	1.9	1.7	1.2	1.6	2.2	4.0	5.8	6.0
CANADA	Central Government	3.8	3.2	3.3	3.9	4.5	4.3	5.0	3.8
	Regional Governments	0.5	0.3	0.1	0.5	2.3	3.2	2.2	1.2
	Social Security Funds	0.4	0.3	0.3	0.3	0.2	0.0	0.1	0.2
	General Government	3.8	2.5	2.9	4.1	6.7	7.5	7.3	5.3
ITALY	Central Government	10.6	9.7	9.4	9.9	9.7	9.5	9.5	8.8
	Regional Governments	0.6	1.0	0.7	1.3	0.6	0.2	0.4	0.4
	Social Security Funds	0.1	0.1	0.3	0.3	0.1	0.2	0.3	0.2
	General Government	11.0	10.7	9.9	10.9	10.2	9.5	9.6	9.0

Sources : For Japan, *Kokumin Keizai Keisan* [The Annual Report on National Accounts], 1997.

Figures for other nations based on OECD, *National Accounts*, 1996.

Data : Zaisei Seisaku Kenkyū-kai, ed., *Zuhyō Kaisetsu Zaisei Deta Bukku* [Explanation of Charts Financial Data Book] Tokyo: Ōkurazaisei Kyōkai, 275.

Public Works in the Agricultural Sector

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Expenditures for rural public works occupy 50% of the national government's general agricultural budget. Yet despite the size of this expenditure, Japanese people do not fully understand the exact nature of these projects. Because construction in agricultural areas has characteristics different from other public works projects, it is not always easy to grasp exactly how and why these projects are initiated. Moreover, the socio-economic network that has grown to support these projects is starting to show its age. The structure of agriculture has changed and with it, the expected roles of public works.

Once the term "rural public works" meant projects to improve and reclaim land. Specifically, investments to increase agricultural productivity such as field reclamation, construction of irrigation facilities, and consolidation of farmland. In the 1965 budget for example, 90% of the funds allocated for rural public works were used for land improvement. However in recent years, allocations for land improvement have come to occupy only about half of the budget. The remaining funds are being used for the construction of sewage systems, the improvement of roads and the development of parks in towns and villages.

One main issue relating to rural public works is the weak legal justification for this recent expansion of projects to include projects designed to improve residential conditions. The 1949 land improvement law was established to regulate the aims and procedures of land improvement projects. At the same time, "rural public works" have gradually been expanding, becoming a permanent section of the national budget for agriculture. Yet the government has not established provisions for public scrutiny of the aim and necessity of projects. Essentially an arrangement has developed whereby projects are implemented under bureaucratic guidance. As this system of public works development lacks accountability, it has naturally invited criticism.

Although it encompasses only about half of the overall budget, land improvement remains the main goal of rural public works. Unlike other public works projects, land improvement is, in a sense, investment in private property, in this case, agricultural lands. This duality of public and private is deeply embedded in Japanese agriculture, particularly in wet field agriculture. The production capacity of individual rice paddies is supported by irrigation facilities developed regionally. Historically, the construction of water facilities and their maintenance was undertaken communally by villagers. Without these communal activities, Japanese agriculture could not survive. Sustaining these communal activities therefore remains an important aspect of land improvement projects.



The duality of public works and private investment is visible in institutional land improvement projects. It is important to realize that with the agreement of two thirds of the farmers in a region, all farmers in that area can be forced to participate in a project. Improvement of irrigation facilities and land consolidation can only be implemented on a communal basis for a region, so by this method an impasse caused by the opposition of a few farmers to a project can be avoided. On the other hand, the private investment aspect of land improvement projects is reflected in the procedure whereby a project can only be initiated at the request of a farmer. In this respect, land improvement projects are different from most other public works projects.

However this request and compulsion system, which was developed after WWII, is collapsing. Various inconsistencies arise when this system is applied to the vastly different agricultural practices of today. Probably the most profound change has been a radical polarization between full-time and part-time farmers. Part-time farmers, who have little interest in land improvement, compose the largest group in today's agricultural areas. In the "one farmer, one vote" democracy that is Japan it has become increasingly difficult to obtain support for land improvement projects.

Yet it is not only part-time farmers who are unhappy. Among those whose main occupation is farming, discontent with land improvement projects is growing because of the burden of construction fees. Different from other public works projects, a portion of the costs for land improvement projects is born by farmers. More specifically, local farmers shoulder the main responsibility for funding the project with the national and local governments providing financial aid. This system reflects the private investment aspect of land improvement projects.

For forty years, cost benefit analysis has been used to determine if a land improvement project will proceed. The "go-sign" for a project is only given in cases where the increased crop yields and the savings from labor that result from the construction are deemed to exceed the investment costs. The reason is clear: in cases where the profits exceed costs, it should not be difficult for farmers to bear their financial commitment. In reality, this happy situation was only achieved in the first three decades after WWII. By the 1980s, the economic context of land improvement projects had changed drastically due to a fall in the price of agricultural products. As a result of this drop in the profitability of agriculture, farmers have increasing difficulty in shouldering expenses for land improvement projects. The economic basis for undertaking public works on the initiative of farmers has almost completely eroded. If the parties involved were to follow the



Public Works in the Agricultural Sector *continued*

stipulated procedure whereby land improvement projects are initiated by the petitions of farmers, many land improvement projects would probably be terminated. It is particularly difficult to carry out land improvement projects in mountainous regions with poor production capabilities. In addition to falling prices, the abandonment of arable land, which has been increasing in recent years, is poised to become an even more serious problem.

Despite these reduced economic benefits, projects continue to be implemented. This is because the government has advocated stopgap measures including increased subsidies. However stopgaps are just that, and have only limited effectiveness. As the difficulties associated with land improvement policy continue to accumulate, policy aims are getting lost.

In conclusion, we can no longer avoid a thorough reconsideration of the system of land improvement. The new basic law of food, agriculture, and rural areas that was passed in July 1999, supports the policy goals of increasing the food self-sufficiency rate. It also emphasizes the preservation of the multiple functions of rural areas such as sustaining water resources and the rural landscape. Rural areas are expected to play a new public role in the 21st century protecting food sources and maintaining multiple agricultural functions. There is a consensus emerging that private property rights should be severely restricted in order to maintain farmland and to secure its effective use. The balance of the public and private elements in agricultural lands is thus undergoing a massive change, and the system of land improvement must respond to this transformation. □

Government Procedures and Public Works Projects

Lately, there has been a “reform boom” in Japan. The list of reforms includes shake-ups of the National Diet and governmental organizations, decentralization, deregulation, reform of universities and the educational system, reform of the financial system, and reorganization of various industries. Indeed, even the judicial system, which at first glance would seem well removed from the reform boom, is being restructured. When we scrutinize the details of “reform” as it is being advocated today, it is clear that reorganization of the facade of systems is considered most important. However, whether reform leads to improvement or is actually a change for the worse will only become evident when the new systems are put into effect.

On June 12, 1998 the “Basic Reform Law of Central Ministries” took effect. With this law, the existing Ministry of Transport, Ministry of Construction, Hokkaido Development Agency and the National Land Agency are to be merged in January 2001. In their place, a new National Land and Transport Ministry is to be established. This huge government agency will have 14 divisions, a staff of approximately 70,000 and jurisdiction over a public works budget of more than seven trillion yen.

The creation of this super-ministry is only one aspect of the current upheaval in public works administration. Recent issues that have come to the fore concern the rationality of projects and the amount of participation in the decision making process of those directly affected by the projects. Let us look first at points related to maintaining rationality in projects. Based on the newly established Basic Reform Law, a system for analyzing policies has been introduced. This system envisages an Administrative Evaluation Bureau of the General Affairs Division and an overseer to evaluate policies of all agencies. The overseer would serve as a link to the committee that would evaluate the rationality of projects and consider if a project should be postponed or abandoned all together. Yet in the end, because the policy evaluations are conducted internally, it is impossible to forecast the degree to which the rationality of public works projects will be actually judged.

Next there is the question of the role of special interests in planning for public works. In the immediate postwar period, the establishment of the Administrative Procedures Law brought recognition of the importance of this question from the perspective of administrative law. But it was not until August 1980 that an Administrative Procedures Research Council was established by the Administrative Management Agency and the first administrative procedure bill was drafted. This bill included regulations for planning procedures and final decisions concerning public works projects. These regulations were to establish procedures for decision making and



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Government Procedures and Public Works Projects *continued*

dispute resolution. Central government ministries, however, became concerned about delays in the implementation of public works projects and strongly resisted the new provisions. As a result, work on the Administrative Procedures Law came to include a re-examination of regulations of the procedures related to the planning and execution of public works projects. Yet in the end, the Administrative Procedures Law that was passed on November 12, 1993, did not include regulations related to planning and implementation of public works projects.

In the Meiji period, the idea of an enlightened absolutist imperial government found much support. There was a prevailing ideology that the monarch and his government existed for the promotion of the public welfare, and that the collective good of the people could only be achieved by the monarch and his government. In prewar Japan, this ideology often appeared in urban planning and real estate laws. Central government agencies guided and controlled all aspects of public works projects and special interest groups were excluded from the process. This was believed to be necessary to protect fairness in the decision making process.

However in the democratic system of today, the participation of interest groups in the decision making process is seen as indispensable. The first administrative reform bill was intended to eliminate the vestiges of the Meiji ideology. In the same vein, in June 1997 the Environmental Impact Law came into effect. Based on this law, for all public works projects above a certain size, construction firms are required to file environmental impact statements and to respond to environmental concerns about a project expressed by those who are to be affected by the construction. However, problems remain in the decision-making process laid down by the Environmental Impact Law. Heretofore in Japan, many regional governments have drafted and enacted guidelines for judging environmental impact. As a result, companies are already formally conducting environmental impact studies. Yet the opinions of those who are going to be affected by the project are seldom respected. In most cases, project plans are not tailored to address the concerns of those who will feel the impact of the construction. Only in a few cases have plans been suspended or abandoned. As long as this system of environmental impact evaluation continues, we cannot assume that the 1997 law will drastically improve the situation on the ground.

In response to criticism that the proposed massive National Land and Transport Ministry will concentrate the decision making process, some power has been transferred to regional maintenance bureaus in regional government offices. While these regional bureaus will dole out huge amounts of financial aid and will thereby be able to exercise a great amount



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of influence on the planning of public works projects, this system remains one controlled by the central government. Also, while part of the central government's reform plan includes making the Environment Agency a full-fledged ministry, the new Environment Ministry will not have strong powers. Additionally even if an environmental impact evaluation law is passed, those affected by a project will still be in a weak position. During the deliberations concerning such a law, central government agencies and the business community have expressed concern that the number of suits filed to hinder public works projects would increase dramatically. The Environment Agency has responded that procedural laws would prevent such suits. As a result, even if those affected by a project file a suit concerning a public works project, the chances of winning a case and preventing a project from moving forward are quite slim. Taken together, all these factors make it unlikely that there will be any great changes in the planning process of public works projects anytime soon.



What's New

at the Institute of Social Science, University of Tokyo

The Language/Power website (<http://lp.iss.u-tokyo.ac.jp>) has been completely revamped and renovated!

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Economic Aspects of Public Works Projects in Japan

KASE Kazutoshi



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Japan has been called the “land of construction.” As Table 1 makes clear, Japan’s rate of fixed capital government investment as a proportion of Gross Domestic Product (GDP) is much higher than in Western nations. There are some obvious reasons for this phenomenon. Compared to many Western nations, Japan experiences far more natural disasters such as earthquakes and floods. As a result, much more is spent on flood control and projects to rebuild damaged areas. Also because Japan is extremely mountainous, construction costs for roads and railways are high. It is also more expensive to develop rice paddies than dry field agriculture. But we must also recognize political and economic reasons for Japan’s consistently high construction budget: the central and local government agencies that actually implement the public works projects want to protect their authority, and high ranking bureaucrats aim to secure jobs in construction firms after retirement (*amakudari*).

As the Japanese economy remained strong in the 1980s, the level of spending for public works stayed constant. Then in the 1990s, spending increased suddenly as public works projects were expanded in order to restart the economy. Table 2 shows the huge increase in central government spending on public works from 1993 onwards. As Table 3 demonstrates, the construction industry has become increasingly dependent on public works projects. In the 1980s the Japanese media began to push for a consolidation of public works projects, criticizing the continued investment in projects that many deemed unnecessary. These criticisms have continued throughout the 1990s. Specifically some in the media have argued that the increase of national and regional debt that resulted from these projects is a threat to Japan’s economic future. However, influential economists and major newspapers that advocate a smaller government and a further restructuring of the financial system, have called for a prioritization in expenditures for public construction programs.

To reduce the American trade deficit with Japan, in the early 1990s the US government pushed Japan to expand domestic demand by increasing public works. The Japanese government used this as a convenient excuse to promise to domestic and foreign audiences 630 trillion yen in spending on public works in the ten-year period beginning in 1995. However an expansion of public works must be connected to the maintenance of social overhead capital and should contribute to the improvement of the welfare of the people. When projects do not meet these criteria, significant harm will result as we can clearly see today.

What changes when the government dramatically increases funding for public works? Under normal circumstances, a new project is chosen based on the financial aid made available by the government. As a result,



construction that might have been postponed for years can begin immediately. However if we compare the situation in 1990 to that in 1993, it is clear that although the budget for public works projects was doubled, construction projects that did not have budget allocations were not launched. This in itself is not strange considering that even if allocations for public works are suddenly increased in the middle of the fiscal year construction that requires a great deal of preparation cannot begin at once.

Public works today have several unusual aspects. First, despite the huge increase in funding, the completion rate of public works projects is declining. One of the few projects that is consistently being implemented is construction to maintain coastal fishing areas. This usually involves placing *tetrapotto* (concrete blocks used to protect coastlines and make artificial harbors) in coastal waters, a project that generally meets with little opposition and can be implemented soon after the budget has been passed. As a result, funds allocated for *tetrapotto* construction are almost all used. This contrasts with public works for farmlands where farmers have to pay a large portion of the construction costs. As the price of rice has fallen in recent years, it is difficult to gain the support of farmers for these projects and a large portion of the budgeted funds end up not being used. Also in the case of public works projects in urban areas, it is often difficult to acquire the necessary land, impeding construction.

Secondly, although the government may decide suddenly to expand the budget, the number of construction sites does not increase. There are often cases where the increased budget is used for cost overruns related to a specific construction area of a project that was initiated at the start of the fiscal year. So even if the budget is increased in the middle of the fiscal year, it is difficult to complete the necessary preparation related to the new construction within that fiscal year. An increase in the cost of the project means that more expensive methods and materials will be used for the project, which many believe will improve the quality of the project overall. While this thinking is understandable, it would make more sense to shift funds to another area in order to use limited budget resources more effectively.

Thirdly, in order to use the funds in the budget, it is necessary to reduce the burden born by local governments by increasing the allocation of funds from the central government. Various measures have been devised to allow regional governments to reduce their costs for projects and to realize quick financing by issuing national and regional bonds. Yet as the balance of national and regional bonds already exceeds the GDP of Japan, the central government appears poised to introduce an adjustive inflation policy to reduce this burden. ⇨

Economic Aspects of Public Works Projects in Japan *continued*

Many proposals have been made to change the system of public works. The media and citizens' groups continue to criticize what they see as unnecessary (and harmful) projects that are undertaken for the benefit of bureaucrats. As a result, there are more and more requests to make public information concerning projects, or to stop them all together. In some areas, this movement has had an effect.

There are also many calls to reduce public works projects in the rural sector, shifting them instead to urban areas. It is a fact that the percentage of public works in rural areas is high in proportion to population. However the standard of living in rural areas is still quite low when compared to Japanese cities. Additional construction to prevent damage from typhoons and earthquakes is still necessary. Also because unprofitable rural railways are being closed, more money needs to be spent on improving roads to pick up the slack. Moreover, while sewage systems have been completed in most urban areas, there are still many rural sectors that lack this basic service. Given these circumstances, the calls of Japanese in urban areas that sparsely populated regions should not be offered additional public works projects appear egotistic. Meanwhile, environmentalists are today demanding that we respect ecosystems, decreeing that "the human hand must not defile nature."

Because the prevailing thought in the 1990s was that it was necessary to develop public works projects in order to stimulate the economy, the government did not make a serious effort to address the evils that accompany public works projects. Clearly for Japan, the "land of construction," one of its lingering social dilemmas is the resolution of the political and economic problems produced by public works projects. □

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Table 1. Public Fixed Investment Structure / GDP

	(%)	
	1990	1997
Japan	6.6	7.8
USA	3.5	2.8
UK	3.2	1.6
Germany	2.3	1.9
France	3.3	2.8

Source : Bank of Japan, *Kokusai Hikaku Tokei*
[International Comparative Statistics]

Table 2. Expenditure on Public Construction Works

	(annual average)	(billion yen)
	Expenditure of Central Government	Total Value of Public Construction Works
1986-89	7118	29984
1990-92	8073	41156
1993-96	13035	49744

Source : Japanese Ministry of Finance, *Kessan no Setsume* [Explanation of Accounts]
Ministry of Home Affairs, *Gyosei Toshi* [Administrative Investment]

Table 3. Level of Spending on Construction [Unit : One Billion Yen and by percentage]

		1990	1993	1997
TOTAL (Private and Public)	a	82443	84049	70452
PRIVATE (total)	b	58239	48743	39974
Building Construction	c	50469	40714	34317
General Construction (roads, etc.)	d	7770	8029	5657
PUBLIC (total)	e	24204	35306	30478
Building Construction	f	4875	6439	5386
General Construction (roads, etc.)	g	19329	28867	25092
Percentage comparison	b/a	70.6%	58.0%	46.7%
	c/a	61.2%	48.4%	48.7%
	d/a	9.4%	9.6%	8.0%
	e/a	29.4%	42.0%	43.3%
	f/a	5.9%	7.7%	7.6%
	g/a	23.4%	34.3%	35.6%

Source : *Kensetsu Sôgô Tokei Nendohô* [Annual Report of General Construction Statistics for the Fiscal Year], published annually.



ISS Contemporary Japan Group at the Institute of Social Science, University of Tokyo

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Political Perspectives on the Internationalization of the Yen

Bill GRIMES

*Assistant Professor of International Relations, Boston University
September 1, 1999*

Professor Grimes described how debate over the internationalization of the yen has recently reappeared. He noted that analyses, including an April 1999 report by the Foreign Exchange, have effectively laid out the economic arguments and necessary conditions for yen internationalization. However, the political ramifications have not been stated as clearly. Internationalization of the yen provides political opportunities and challenges at both the domestic and international levels. In Asia, internationalization would force Japan to take on a greater degree of regional leadership, with uncertain political benefits and potentially high costs. Globally, internationalization of the yen may increase international monetary instability, or it may give Japan bargaining power with which to create greater stability. Professor Grimes concluded that domestically, the internationalization agenda



dovetails with the conventional financial liberalization agenda, and thus may strengthen the latter.



Democratic Foreign Policy Making in Transitional States: The Case of Post-Apartheid South Africa and its Relations with Japan

Christopher ALDEN

*Professor, University of the Witwatersrand
September 17, 1999*

Professor Alden presented conclusions from his

research on the process of foreign policy formulation and implementation by a democratizing state (South Africa) with reference to its relations with Japan. He argued that the literature on political transitions does not address a number of important concerns regarding international relations because it is firmly ensconced within the framework of domestic politics. He stated that these include the problematic of conduct and formulation of foreign policy amongst “pacted” elites and the translation of revolutionary ideals held by erstwhile non-state actors into policy prescriptions once they are in power. Another factor is the role of the international community in fostering adherence to a state-centric rule-bound international system by regimes in transition.

Networking for Profit: Information Loops and Informational Advantage

Michael A. WITT

*Ph. D. Candidate, Department of Government, Harvard University
October 26, 1999*

Mr. Witt stressed that it pays to network and that Japanese companies with better connections with other firms and organizations in the same industry make more money than their less well-connected counterparts. He contended that by using networks to obtain more and better data about the environment in which they operate, firms can reduce uncertainty in their corporate planning and produce more accurate plans. This leads to cost savings and better products and consequently, higher profits. He concluded that empirical evidence indicates that especially universities and firms are useful information sources, while connections with industry associations and government agencies represent informational liabilities.



Research Report

War Victim Compensation Campaigns of the 1960s: Suffering in Service to the Nation-state

James J. ORR

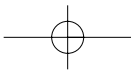


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On 15 August 1963, the Ikeda administration inaugurated annual commemoration ceremonies for the war dead on the anniversary of Japan's capitulation in the Asia-Pacific War. General condemnation of Japan's wartime aggressions and pacifist sentiment in postwar Japan had prevented the government from sanctioning annual ceremonies before then, but the limitations on official expressions of patriotic sentiment were changing.

Emerging pride in Japan's economic recovery in the 1950s and 1960s—a period of high economic growth now enshrined as the defining experience of contemporary Japan—was slowly evolving into a kind of mercantilist nationalism, especially among government bureaucrats and the business managerial class. Furthermore, the birth of new nations in Asia and Africa and intellectual soul-searching after the Security Treaty riots of 1960 contributed to a new discourse over nationalism in which most agreed on its desirability if not its character, as a basis for national independence and democratic development.¹ There remained of course deep ambivalence over the state's role in waging war on the Asian continent that prevented any official statement on whether the war dead had died for their country's sins or for its honor. In announcements and interviews in the days preceding the 1963 ceremony, government officials took care not to challenge the ideal of a pacifist Japan by emphasizing that all Japanese victims of the war, military and civilian, were to be memorialized, and that their sacrifice had been given meaning by postwar Japan's peace and economic development.

The questions of which war victims were to be honored and why involved the living as well as the dead. During the Occupation, Supreme Commander for the Allied Powers (SCAP) had established the principle of social welfare equity that eliminated special considerations for those who had served the nation through military service in war. However the Yoshida administration was able to honor that service in 1952 legislation that re-established veteran's pensions and assistance to bereaved families as a form of state compensation (*kokka hoshō*) for losses due to state policy. The 1960s was a decade in which the Liberal-Democratic Party (LDP) increased its use of the pork barrel and expanded welfare expenditures to build constituency support, and three civilian war victim groups seeking state compensation took heart from the newly positive discourse on national service. Survivors of the atomic bombings (*hibakusha*) and their predominantly Socialist Party supporters argued that their status as symbols of Japan's anti-nuclear pacifism and the special nature of their radiation-induced illness, privileged them to better assistance than that provided for in the original 1957 Medical Care Law. The latter legislation had emerged from the post-Lucky Dragon ban-the-bomb consensus on Japan's special a-bomb victim heritage.² Former landlords who had been forced to sell their land cheap in the U.S.-directed land reform had been trying to gain fair



compensation—or “recompensation” as their opponents would have it—ever since the end of the Occupation in 1952. Repatriates who had lost their overseas assets in the turmoil at the war’s end had received token payments disguised as welfare in 1957, but now wanted better compensation.

In championing their cause in the Diet, the Socialists consistently contrasted meager medical aid for atomic bomb survivors against the government largess for veterans, and linking relief for survivors of the atomic bombings to the ban-the-bomb movement, used rhetoric that condemned Japan’s foreign policy alignment with the United States. After the December 1963 Tokyo District Court ruling that the government bore a moral “resultant responsibility” since the atomic bombings were the ultimate result of state policy, Socialist Diet members continued to propose bills and amendments that would have accorded the atomic bomb survivors privileges equivalent to those already given war veterans and bereaved families. Despite their acceptance of Hiroshima as a uniquely privileging Japanese national victim experience, conservative administrations limited the domestic political and foreign policy import of aid for atomic bomb survivors by consistently defining it as simply a special kind of social welfare. Out of this ideological contest atomic bomb survivors achieved only incremental increases in government relief, even in the years after the Supreme Court ruled in March 1978 that such aid in reality constituted state compensation. The Special Measures Act for atomic bomb survivors enacted in the spring of 1968 set income limitations on monthly living and medical care allowances.³

Both dispossessed landlords and repatriates, who were well-organized and claimed influence over three million votes each through their respective National Farmland League (Zenkoku Nōchi Dōmei) and National Federation of Repatriate Groups (Hikiagesha Dantai Zenkoku Rengōkai, or Zenren), eventually gained special consideration by exercising their considerable electoral clout on rank and file LDP Diet members, and by accepting payment levels lower than they had originally sought.⁴ Of interest here are the eventual justifications for these programs, even though the progressive press dismissed them as chicanery designed to appease special interests. Landlord and repatriate supporters argued that their victim experiences embodied a special service to the nation that elevated their claims on the government from an issue of welfare or even compensation, which the courts had rejected, to one of national honor.

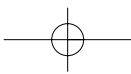
The critics of the National Farmland League’s efforts suspected that their real aim was to undermine the land redistribution which had “modernized the land system” and brought prosperity to former tenants and the nation. By the end of 1961 the League’s LDP proponents had decided to resolve the

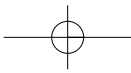


Notes

¹ For example, the description of the renewed interest in nationalism among progressive intellectuals in George R. PACKARD, *Protest in Tokyo: the Security Treaty Crisis of 1960* (Princeton: Princeton University Press, 1966), 328-30, 334-38, especially 337; Also of note are various essays in the June 1961 special issue of the journal *Shisō* “Assessing the Nation” especially KYOGOKU Jun’ichi “Demokurashii” to ‘Nashonarizumu’—Gendai Nihon ni okeru Ishiki to Kyodo” *Shisō* 444 (June 1961): 69-85. Also of note are essays “Considering Japan” (Nihon o kangaeru) in *Chūō Kōron* (October 1962) and editorials in the *Asahi Shinbun*, 8/15/63, 8/15/64.

² Also known as the Bikini Incident, this event involved a Japanese fishing vessel, the Lucky Dragon, whose crew of 125 suffered radiation sickness from the US test of a hydrogen bomb at Bikini Atoll in March 1954. Although the vessel was outside the 200 kilometer designated danger area, one crew member died and hundreds of tons of contaminated fish to be destroyed. Janet E. Hunter, compiler, *Concise Dictionary of Modern Japanese History* (Berkeley: University of California Press, 1984), 15.





War Victim Compensation Campaigns of the 1960s *continued*

Notes (continued)

³ SHIMODAIRA Hiromi explores the policy consequences of the social equity thesis for *hibakusha* relief in "Genbaku hibakusha ni tai suru 'kokka hoshō o kangaeru,'" *Kikan Rōdōhō* 123 (March 1982): 122-30.

According to Shimodaira, in the early 1950s stalwart defenders of social equity equivocated that veterans' benefits could be classified as compensation owed as a contractual obligation by the state as their former employers.

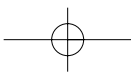
⁴ Haruhiro FUKUI, "Compensating Former Landlords," in his *Party in Power: The Japanese Liberal-Democrats and Policy-Making* (Berkeley and Los Angeles: 1970); John Creighton CAMPBELL, "Compensation for Repatriates: A Case Study of Interest-Group Politics and Party Government Negotiations in Japan," in T. J. PEMPEL, ed., *Policymaking in Contemporary Japan* (Ithaca and London: Cornell University Press, 1977): 103-42.

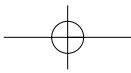
⁵ Jiyūminshūtō (Liberal Democratic Party), *Seisaku Geppō* 113 (June 1965): 25-28.

landlord problem through payments not in the form of "compensation" (*hoshō*) for assets unfairly seized but as "remuneration" (*hoshō*) for sacrifices in cooperation with the land reform. By dropping the earliest revanchist claim for repossession and embracing the revolutionary land redistribution instead of criticizing it, the landlords were able to turn to their own advantage the argument of the land reform's defenders. In a conflation of the landlords and the reform that dispossessed them, an LDP policy document supporting the 1965 Farmlands Remuneration Bill asserted that the landlord's cooperation was essential to the land reform that "served an exceptionally important role in our country's democratization and economic development of agricultural villages."⁵

A prime minister's advisory council justified the 1967 repatriate payment legislation by asserting that repatriate suffering was service to the state because they had "made their livings and worked in accordance with state policy on the front lines of state policy." The council also redefined lost assets to include "livelihood interests," the non-material assets such as social standing and community belonging, the loss of which constituted exceptional suffering that deserved sympathy and, in concrete terms, government compensation. These were significant additions to the long-standing argument that lost assets helped cover reparations payments. Still, because of the widespread distrust of anything that might indicate approval of war policies, when it came to Diet interpellation, government officials could not be too explicit about arguing a moral obligation to repatriates for service to the wartime state, and in fact the legislation provided smaller grants to those who had immigrated after 1937, the year of the "China incident."

The Ikeda and Sato administrations' "consensus politics" is often regarded as a departure from the ideological struggles of the Kishi years, but the struggle over whose vision of a post-postwar Japan would prevail continued in the realm of policy formulation and in the rhetoric of legislation. The "postwar resolution measures" outlined above were in tune with the government's efforts to build a "respectable neo-nationalism" which included the promotion of a popular identification with the imperial family and other measures such as reinstatement of decorations for national service, hosting the summer Olympics, establishing National Founding Day on the traditional date of the imperial dynasty's founding, and celebration of the Meiji centennial.⁶ The rising consciousness of Japan as an economic power meant that heroes could be made of those whose suffering contributed to the nation's economic success. War victims were honored not only as symbols of Japan's identity as pacifist nation, but also for their service to the new mercantilist nation. Through its position as leader of the government and the Diet, the LDP was able to legislate compensation for its





clients, but it had to justify them in politically permissible language, in ways that modified rather than destroyed the existing pacifist moral to be learned from the national experience of war “victimhood.” The key to legitimacy for landlords was that their “sacrifice” promoted the central postwar values of economic growth and democracy. The repatriates, it was early argued, had contributed to postwar prosperity through automatic application of their losses toward war reparations, but their case was complicated by the fact that they had served the policies of the wartime state. The attempt to ascribe honor to their prewar example of loyalty and service to the state only made that honor ambiguous. In the 1960s conservatives tried to impute value to patriotism by making victims heroes, but the victims had to be situated, even if disingenuously, as contributors to a peace-loving and democratic as well as economically dynamic nation.



Notes (continued)

⁶ “Respectable neo-nationalism” is a phrase used by Stephen LARGE in *Emperor Hirohito and Showa Japan: A Political Biography* (London and New York: Routledge, 1992), 170. For a contemporary progressive critique of the decorations system see “Seizonsha jokun seido no fukkatsu” *Sekai* 215 (November 1963): 139-42.

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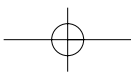
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Rejection, Understanding, Strategy

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Research Report

The Restructuring of the Japanese Purchasing System: Preliminary Results of Research in Progress

Yveline LECLER



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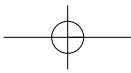
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Since the 1980s, external and internal constraints have combined to bring about a restructuring of the Japanese purchasing system. The labor shortage of the 1980s, the rise in the value of the yen after 1985 and, the recession in Japan in the 1990s have been factors behind this change. Other elements have been the easing of regulations by Asian countries to attract direct foreign investment, the reinforcement of local content policies, and the pace of growth in Asian countries. Together these factors have caused an increase in the relocation of firms that has in turn affected the volume of orders to Japanese suppliers in Japan. As a result, the survival or redeployment of suppliers and N-ranked subcontractors is now on the agenda. Needing to adapt to this new situation, firms have to take measures to cope with more globalized purchasing networks, following the strategies developed by large Japanese companies. The present period is an era of instability during which a new paradigm is being defined. My research considers all the factors involved and attempts to roughly gauge what kind of purchasing system Japanese firms will use in the 21st century.

Changes in the Japanese Purchasing System: Towards More Transactional Principles

Previous research has shown how recent trends are affecting the main characteristics of the Japanese purchasing system. The quasi-exclusive dependency of suppliers/sub-contractors towards their main customer/parent-firm is clearly weakening. One key reason is that companies have diversified their clientele to compensate for the decrease in orders that has resulted from increased purchasing abroad. Moving up the value-added chain, however, we see that another reason is companies taking more control over the production process (e.g., increased assembly work and design). In fact, suppliers tend to become more autonomous from their main customer as they become more efficient and take charge of the overall design activities for complex products. The notion of a main "parent-company" is therefore blurring. If the dependency in terms of turnover, which was the guarantee for the consistency of the system and for the operating of the relation-based organizational principles disappear, how will the system adapt to survive? Increasing globalization could lead Japanese firms in Japan to adopt management practices tested abroad.

Japanese transplants in the U.S. or in Europe (especially in the United Kingdom) have provided companies with an opportunity to test the adaptability of some Japanese principles of management of customers/suppliers relations in a different social context.¹ American or European firms who learned from Japan restructured themselves and made improvements in their technological and organizational capabilities. The learning process mainly involved the introduction of Japanese relational principles in organization and management, but due to national labor and



industrial institutions, these principles were adapted to the local environment. Overall, the Japanese system was quite efficient as long as growth was sustained. Yet because of the continued economic recession, it is at a turning point in its history and appears to be restructuring by adopting Western practices which have proved successful in transplants or methods used in Western firms that formerly introduced and adapted Japanese practices. As a result, the Japanese system is moving away from its relational dynamics and becoming more transactional with purchasing networks being reorganized. Empirical observations show less differentiation between Western and Japanese systems than before. This trend can be considered as a convergence phase or as a hybridization of Western and Japanese models due to mutual learning permitted by the globalization of firms.

The high yen rate between 1990 and 1995 pushed firms to relocate more activities in Asian countries to cut costs. Firms were also pushed to cope with local regulations and/or to capture the increasing demand of local markets, leading to a broader restructuring of networks in which not only Japan (or Western countries) but also the peripheral Asian countries became involved.

Country-Based Specialization: Towards an International Division of Labor in Asia?

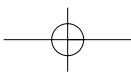
Due to the low volume of production and fragmentation of markets in the member nations of the Association of Southeast Asian Nations (ASEAN) and because of local content policies that governments of ASEAN countries have implemented, the Japanese firms that oriented production to local markets, were not able to reproduce their purchasing organization in the ASEAN area. Firms had to experiment to adapt to the two-fold necessity of cutting costs through economies of scale and of satisfying the local content regulations of host countries. For example in the automobile industry, new experiments in joint production between firms (or ordering components from suppliers) belonging to different grouping in Japan were carried out to increase local production volumes. Dictated by necessity, this experimentation constitutes a learning of new modes of inter-firms relations and of organizing purchases that could lead to broader network restructuring even in Japan.

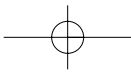
With the Asian crisis and the shrinking of markets, economies of scale are even more necessary. They are however more difficult to achieve since production volumes, which were often below profitability levels, are much lower than in the past. Complementation schemes implemented by ASEAN countries could become more broadly used (since their implementation,



Notes

- ¹ Among others: ABO Tetsuo, ed., *Hybrid Factory: The Japanese Production System in the United States* (New York: Oxford University Press, 1994); ABO Tetsuo, "A Comparison of Japanese Hybrid Factories in Asia," *the US, Europe and Asia, Management International Review* vol. 35.1 (1995): 79-93.
- ² Even between ASEAN countries, a specialization by type of parts and countries is occurring (LECLER and GUHIEUX, 1999)
- ³ For a more detailed presentation, see Yveline LECLER (1999).





The Restructuring of the Japanese Purchasing System *continued*

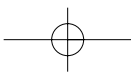
intra-zone flows have remained low) to cope with the present situation. Such a trend would also lead to a further restructuring of purchasing networks.

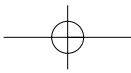
Differences exist between export-oriented sectors and local market-oriented ones, but it is clear that all these factors acting successively or simultaneously are creating an increasing specialization by product and by country based on the comparative advantage of nations. Japanese firms in Asia seem to be implementing a new division of labor that includes the whole region. In the automobile industry for example, labor intensive parts are increasingly manufactured in ASEAN countries, while more value-added ones are procured from Taiwan with more sophisticated types still being produced exclusively in Japan.² In the electronic and electrical appliances industries regional head offices, generally located in Singapore or Hong Kong, have to purchase parts from suppliers and sub-contractors within the whole Asian region based on price or the quality/price ratio. This means that no guarantee is given about the duration of the transaction or about the volume of orders. They also have to dispatch them to concerned factories in the region including Japan, which means that there is no direct relation between the customer and its suppliers. The “transactionalization” process of relations between the various members of Japanese groups or industrial *keiretsu* seems to be favoring the restructuring of purchasing networks. The relocation of activities in Asian countries, especially in the ASEAN area, favors the ‘transactionalization’ of purchasing, due to local constraints reinforced by the Asian crisis. These constraints, leading to a specialization by countries and product based on comparative capabilities, are leading Japanese firms to implement an international division of labor in Asia.

The Purchasing System of Japanese Firms for the 21st century: A Tentative Scenario

Drastic changes have occurred in recent years. Firms have tended to adapt to these changes by enhancing new strategies or simply by acting through opportunities. As far as purchasing is concerned, practices are continuing to evolve and it is still difficult to predict network “structuration,” the type of inter-firms relations and the nature of the division of labor that will develop in the 21st century. Previous research and recent observations can help us form one hypothesis or scenario for the structure the Japanese purchasing system could take in the near future,³ namely a combination of existing system organizational principles and a new mode of relations based on international learning.

In this scenario, large Japanese firms would purchase strategic and highly sophisticated parts or components on a ‘buying by catalogue’ basis from the





Japanese or world market (transaction-based model). They would be situated at the top of a structure in which:

- Upper levels would consist of firms located in Taiwan or Hong Kong, and later in Thailand, Malaysia or other Southeast Asian states (these are firms originating from Japan, joint ventures or local firms with cooperation agreements). The necessary know-how would be transferred to these firms so that they could meet the sophistication and quality standards essential for Japanese product competitiveness. Because know-how transfer is so necessary, those firms would be extremely dependant on a particular customer, although perhaps not exclusively. The relational characteristic of the Japanese system would remain valid at this level of the structure.

- Lower levels would be formed with local firms in ASEAN states and in Vietnam and Burma in charge of the less complex processes, and absorbing the economic fluctuations caused by currencies fluctuations and/or by demand evolution. This level would remain essentially transactional, but instead of being national, the regulation would become transnational.

This research is still in progress. More complete observations are necessary to test the proposed scenario. Comparison of industries will be helpful, for example export-oriented and local market-oriented ones, or high product complexity and lower product complexity ones. Other scenarios also have to be explored, taking into account the evolution of government policies, the strategies taken by firms, and international alliances.

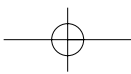


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Special Report

Japan in Hard Times : The SSJ Forum Debate on the Japanese Political Economy

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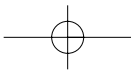
In August 1999, a lively debate on the current political and economic changes in Japan took place on SSJ Forum. As many readers of *Social Science Japan* know, SSJ Forum is an e-mail discussion group on contemporary Japan. Postings are moderated and distributed by the Institute of Social Science, University of Tokyo.

The debate began with Alex ROY's review on T.J. PEMPEL's *Regime Shift: Comparative Dynamics of the Japanese Political Economy* (Cornell University Press, 1998) (posted by Yone SUGITA, Aug 2). Pempel responded to Roy's critiques (Aug. 6). Richard KATZ and Pempel then exchanged several postings, which drew more participants into the fray. As the debate progressed, it became clear that the participants disagreed concerning the speed and scope of the changes as well as the political ramifications of recent economic changes.

One of the central issues of the debate was the extent to which economic forces would change the politico-economic system of Japan. Most participants agreed that the current recession increases the demand for the introduction of market mechanisms as well as the desirability of liberalization. If such a change is necessary, as many economists have concluded, why isn't it taking place? Or, has it already happened? The participants sharply disagreed on the speed and content of change.

Katz emphasized the impact of economic forces and predicted some fundamental changes. In contrast, Pempel argued that economic stagnation might persist due to the lack of organizational links between economic forces and political actions. Katz stated: "T.J. [Pempel] has chosen to stress the resistance power of current institutions. I, on the other hand, would like to point out here the destabilizing power of economic strains. I believe that the economic pressure on Japan's current system are somewhat more severe than T.J. indicates" (Aug. 11). The reason is that "[Japan's] finances, demographics and politico-social institutions are all dependent upon a certain minimal rate of growth...Thus, low growth is highly instable. It creates financial strains in the system that eventually cause the economy to ratchet downward" (Aug. 13). Hence Katz predicted that we would see "quantum shifts" (Aug. 20) rather than incremental reforms.

Pempel, in contrast, stated that the most plausible scenario for Japan in

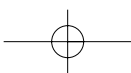


the near future is “Italianization.” That is, “a limp economy with some pockets of strength, and a party system in which pork barrel politicians raid the national treasury on a regular basis to provide their supporters with the specific payoffs needed to keep themselves in power” (Aug.11). “I argue that change(s) in Japan are likely to be far slower, less rational, and less driven by Western economic logic that it seems to me Rick [Katz] does.” (Aug. 17). Pempel concluded that we would see “incrementalist and less-than-thorough reform over a very long period” (Katz, Aug 20).

While Pempel and Katz made different judgments regarding the impact of current recessions on the Japanese system, both agreed that Japan had not yet undertaken serious reforms. Leonard SCHOPPA, in contrast, called attention to changes that have already taken place (Aug. 18). He reminded participants that Japan had embarked on several market-oriented reforms, such as the new Large-Scale Store Site Law, the “Big Bang” financial reforms, new accounting rules, and the probable introduction of 401K-type pension schemes in the near future. He also argued that corporate behavior had already responded to global trends regardless of regulatory reforms and political actions.

Contributors also sharply disagreed as to whether or not political action is necessary for fundamental economic reforms. Schoppa stated his position clearly: “What we need to appreciate, however, is that many elements of ‘reform’-by which we all mean the introduction of market forces and competition into more and more areas of economic activity-need not wait for political action” (Aug. 18). He argued that cartels and lifetime employment commitments are the main features of the Japanese economic system that stand in the way of marketization of many insulated segments of the dual economy. “Political action is not necessary (although it could accelerate things) to break through these barriers. All it takes is for a firm or two in each sector to realize that its survival depends on breaking its cartel and employment commitments. Once a few take the plunge, others will be forced to follow” (Schoppa, Aug. 18). Yoshio SATO supported this view by suggesting that one change might trigger a “snowball” of other changes (Aug. 21).

In response Pempel argued, “I...am less than convinced that such



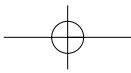
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Japan in Hard Times *continued*

corporate level changes will quickly be reflected at the political level... I would expect lots of corporations in Japan to be changing rather quickly-but this remains a long way from serious and systematic structural change" (Aug. 19). Ed LINCOLN also stressed institutional and organizational obstacles to change (Aug. 18) and added "as has happened at all points in the past 140 years, the pressures will be ultimately modified in some fashion" (Aug. 21). In a similar vein, Katz noted that "reform cannot be consummated without a political change, an end to the one-party state under the LDP...Ultimately, for reform to succeed, there has to be a political response, which simultaneously allows the reform process to continue but which provides a stable transition belt and safety net...in fact I don't know of any polity that has gone through the scale of changes that Japan needs without a political change" (Aug. 20).

All participants agreed that Japan was moving toward the American model, although they do not think that it will lead to convergence. Pempel strongly advocated the "non-convergence" thesis. Many students of contemporary Japan would probably share his goal of "challeng[ing] the notion that Japan 'must' become more like the U.S." (Aug. 6). A number of scholars would also agree with his remark: "many Japanese institutions, patterns of politics, norms and the like will be critical filters refracting the ways in which such international pressures play out in Japan" (Aug. 6).

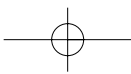
At the same time, even those who do not believe in convergence recognize that the Japanese government and firms will surely continue to undergo institutional reforms. Yesterday's Japan model is not likely to be identical to tomorrow's Japan model, yet they both differ from the American market economy. How can we gauge the differences between Japan's past and future? Which institutions and norms are rigid and persistent, and which are not? What kind of economic pressures are liable to have bigger impacts than others and why? The different assessments of change outlined above partly depend on the varying answers to these questions. What observers of Japan need to do is develop better tools to appreciate changes occurring in Japan, instead of constantly measuring Japan against the U.S., because using the American model as a comparative standard tends to downplay change in Japan.



The final issue in the debate concerned the relationship between economic reforms and electoral politics. Some believed that if a frustrated electorate votes out the LDP, new political forces will bring structural changes. However, others were skeptical about this scenario. The skeptics believe that voters probably will not bring change via the ballot box partly because voters can accept more economic pain than we might expect and “economic efficiency or maximizing economic performance” is not “what drives politics or public attitudes.” (Lincoln, Aug. 18). Moreover, the lack of alternative parties makes the LDP rejection scenario less probable. Most contributors believed that the opposition parties or new parties do not have the capability to replace the LDP and undertake fundamental reforms. Pempel stated firmly that “amorphous ‘popular discontent,’ ‘economic frustration,’ or ‘economic logics’” will not bring about reforms. “Such forces may be part of a general equation affecting decisions, but their real power will, I fear, be minimal without real organizational, institutional and economic power behind them” (Pempel, Aug. 17).

Katz, on the contrary, stood open to the possibility that “people so anxious in the supermarket” are also anxious in the voting booth. Paul MIDFORD emphasized the significance of the 1998 Upper House election, which suggested “voters are willing to punish the LDP even for ‘modest economic pain,” and gave more credence to the Democratic Party as a viable alternative (Aug. 21). Katz emphasized that the LDP would not be able to deliver as many goods as before with economic stagnation, and therefore argued that a “catch-all coalition” led by the LDP would fall apart (Aug. 13). Midford, on the other hand, stressed that a fiscal crisis rather than low growth rate per se may threaten LDP dominance. “The pain of a full-blown fiscal crisis might be enough to push voters to choose (or experiment) with another party” (Aug. 21). In any case, Katz’s and Midford’s suspicion of the sustainability of the LDP’s distributional politics exhibits a sharp contrast to Pempel’s Italianization scenario.

Most participants seemed to agree that because the LDP’s dominance depends on the current economic system, the structural changes that Japan requires are inevitably predicated on the end of LDP supremacy. Yet the participants interpreted the inter-connection of politics and the



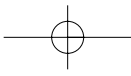
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economy in opposing ways. Pempel and Lincoln held that interdependence prevents serious changes from occurring because the ruling coalition, fearing a loss of power, resists reforms that would undermine the integrity of the entire system. By contrast, Katz maintained that a simultaneous change in politics and economy is likely to occur, precisely due to the inseparable nature of LDP politics and the Japanese way of generating growth. Contributors' arguments differed based upon their judgments of the degree of incompatibility between the existing system and economic pressures.

While the participants disagree on the severity of economic forces, there seemed to be a consensus on the LDP's seemingly immutable nature. No one suggested the possibility that the LDP will refashion itself in order to adjust to the new economic system. Katz clearly stated that the LDP will not reform Japan. However, this does not preclude another scenario. We may see slow but steady economic recovery (due to changes in corporate behavior and ongoing regulatory reforms) with a renewed LDP (possibly changed because of a further split and merging with other parties) still in power. Just as no one participating in the debate foresaw Japan's recovery by its own power (except Roy, Aug. 19), there was little expectation that the LDP would be flexible. Once the Japanese economy recovers and the American economy enters a recession cycle, however, this view might gain credibility. Japanese conservative elites certainly aim to craft reforms to realize this "New Japan, New LDP" scenario.

By nature, speculations are methodologically less rigorous, largely impressionistic, and always risky. The above discussion on the future of the Japanese political economy reveals our implicit assumptions on the causal mechanisms between politics and the economy as well as our criteria for assessing change. I believe that the SSJ Forum is an appropriate place for this kind of debate because speculation generates spontaneous responses and highlights disagreements, all of which collectively enlighten us. Last summer's debate focused on the current recession as a driving force for change in Japan. Structural forces, such as



globalization of economic activities and financial mobility, were not fully discussed, although Pempel and Roy exchanged thoughts on the subject. (Roy, Aug. 2; Pempel, Aug. 6). Fiscal crisis (Midford, Aug. 21), the spread of e-commerce (i.e., economic transactions on the Internet), and information technology (Tanya CLARK, Aug. 18) also deserve attention. I encourage readers to continue to analyze the forces that affect Japan's politics and economy, and hope that more discussions will enliven SSJ Forum in the future.



There is a complete, searchable archive of SSJ-Forum posts on the homepage of the Institute of Social Science, University of Tokyo (<http://www.iss.u-tokyo.ac.jp>).

