The Transition from Technocracy to Aristocracy in Japan, 1955-2003

by

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The core issue underlying the bulk of scholarly research into the Japanese political economy is the relationship between the bureaucracy and the politicians. My study investigates whether there has been a relative decline in bureaucratic influence and whether politicians are displaying more independence in the policy making process than they did during previous decades.

My main hypothesis is that the loss of bureaucratic influence has largely been a function of the declining position of former bureaucrats within the ruling Liberal Democrat Party (LDP), and that it has largely been politicians who were able to enter the Diet at a young age due to hereditary recruitment who have gained influence. Their ability to build up seniority has placed them at an advantage in promotion to key party and government posts due to the adoption of a seniority system of selecting cabinet ministers and party leaders.

I use probit and logit analysis of LDP cabinet and Diet members (1955-2003) to demonstrate the decline of former bureaucrats within the LDP in terms of their overall numbers and their occupancy of key posts. I use cross case study analysis of the work of three major blue-ribbon administrative reform panels (the Provisional Administrative Reform Commission established in 1962, the Second Provisional Administrative Reform Commission established in 1981, and the Administrative Reform Council established in 1996) to demonstrate how the lack of former bureaucrats within the LDP left the Ministry of Finance vulnerable to reform that stripped it of authority and altered its traditional policy preferences.

My case studies analysis shows that following the founding of the LDP in 1955, former bureaucrats in the party supported delegating substantial authority to the bureaucracy and resisted attempts to curtail bureaucratic influence, acting as conduits for bureaucratic influence in the LDP. However, over time as former bureaucrats lost their pre-eminent position within the LDP, attempts to reduce bureaucratic influence were successful. I conclude that the reforms implemented on the recommendations of the Administrative Reform Council fundamentally changed Japanese financial administration and altered financial policy in a way that was a major departure from traditional bureaucratic preferences.
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Chapter One – Introduction, Structure, and Methodology

I. Introduction

The core issue underlying the bulk of scholarly research into the Japanese political economy is the relationship between the bureaucracy and the politicians. Any study into why a policy is developed or any speculation about what to expect in the future must deal with the question of who is making policy. While it is relatively easy to trace the path of a bill as it makes its way through ministerial secretariats, deliberative councils, party committees, and the floor of the Diet, it is not at all easy to judge the relative importance of the influence of each of these bodies. Moreover, while the constitution stipulates that the Diet is the supreme legislative body in the land, there is nothing that would stop the politicians who run the Diet from delegating considerable leeway to bureaucrats if they chose to do so. For these reasons, a debate has raged between scholars who contend that politicians have been willing to delegate huge amounts of authority to the bureaucracy and those who insist that politicians take a very active role in policy making.

It may be impossible to settle the argument about just how susceptible the politicians are to bureaucratic influence in absolute terms. It is the purpose of this study to investigate whether there has been a relative decline in bureaucratic influence and whether politicians are displaying more independence in the policy making process than they did during previous decades. My contention is that the change in the relationship between the politicians and the bureaucracy is primarily due to a change in the pattern of recruitment into the long-ruling Liberal Democrat Party (LDP), as well as promotion within the LDP to top party and cabinet posts. The plausibility of this contention will be demonstrated using an examination of time series data that confirms the shift in Diet member career paths and also using case studies of official efforts at administrative reform during the period from 1955 to 2000. By better understanding who plays what role in the policy making process, it will become easier to predict how developments in the domestic or international
scene could effect Japanese government policy.

II. Problem statement

This paper poses the question: "Has the Japanese bureaucracy been losing its influence in the policy making process?" This leads to further questions about the extent of the loss of influence, the causes of the loss, and who has gained influence in policy making. My main hypothesis is that there has been a loss of bureaucratic influence and it has largely been a function of the declining position of former bureaucrats within the Liberal Democrat Party. A closely related hypothesis is that it has largely been politicians who were able to enter the Diet at a young age due to hereditary recruitment who have gained influence. Their ability to build up seniority has placed them at an advantage in promotion to key party and government posts.

Chalmers Johnson's developmental state theory provides a basis for the null hypothesis. Johnson postulates that politicians have delegated the economically vital industrial and financial policy making duties to the Ministry of International Trade and Industry (MITI) and the Ministry of Finance, which he calls the most elite part of the bureaucracy. However, Johnson acknowledges that politicians frequently intervene in the functions of the "pork-barrel" ministries of Construction, Transportation, and Posts and Telecommunications. Johnson's attitude towards the question of the politician-bureaucrat relationship is revealed by his oft-quoted adage that "bureaucrats rule, politicians reign," Johnson first became associated with this position during the 1970's, but he continues to maintain that politicians remain content to delegate the important business of guiding Japan's economy to the bureaucrats so long as they can satisfy their key constituents with pork-barrel and favors enough to get re-elected.

My hypothesis has rivals. Inoguchi and Iwai (1987) present an alternative view of the bureaucracy-politician relationship. Their theory of zoku (tribal) politicians claims that since the 1970's politicians have been playing an increasingly important part in policy making. Inoguchi and Iwai say that through long periods of service on LDP policy research committees and through their other

1 Johnson 1982, pp.20-21
2 Johnson 1995, p.214
3 Johnson 1995, p.13
parliamentary and party duties, large numbers of LDP politicians have acquired enough technical expertise in certain policy issue areas to free themselves from their reliance on the bureaucracy to formulate policy. Inoguchi and Iwai contend that Johnson may have exaggerated the importance of the role of the bureaucracy because he listened too much to the bragging of MITI bureaucrats. For his part, Johnson responds that the only thing that zoku politicians gained expertise at was taking bribes.

To put it in a nutshell, Johnson says that bureaucrats continue to run things, Inoguchi and Iwai say that politicians are playing a more prominent role than they used to because of their increased expertise, and I say that politicians are playing a more prominent than they used to because politicians with no career ties to the bureaucracy have taken over key party and government posts from politicians who were retired bureaucrats.

III. Research Design

Research Questions

The core question addressed by this paper is "Has the Japanese bureaucracy been losing its influence in the policy making process?" By "bureaucracy", I refer to the central government ministries and agencies. From this

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4 Inoguchi and Iwai, p.5
5 Iwai provides a definition of zoku in Takashi Inoguchi, Masachi Osawa, Norio Okasawa, Yoshinobu Yamamoto, and Steven R. Reed, editors: Encyclopedia of Political Science (Seijigaku Jiten).

Zoku (policy tribe) MPs are politicians who have a strong influence, whether officially or unofficially, over policy decisions in a given issue-area. The issue areas correspond to the ministries, such as post and telecommunications zoku and construction zoku, and these zoku MPs are the politicians that the bureaucracy must negotiate with. The policy tribes formed under the LDP one-party rule with zoku MP's gaining experience as cabinet ministers and members of LDP policy research groups. They originally played a role in negotiating with vested interests, but since the 1980's many have become cheerleaders for the bureaucracy due to the advantages they gain in elections and fundraising. Their existence has become an obstacle to fair policy making. Moreover, policy tribes exist in the opposition parties in fields such as welfare and labor, although their influence is more limited.

6 Johnson 1995, p.214
basic question flow other questions:

- "To what extent has the influence of the bureaucracy declined during the period of LDP dominance (1955-2003)?" The year 1955 was chosen as the starting point for the study as that was the year that the Liberal Democrat Party was formed out of the merger of two conservative parties.

- "Is the magnitude of the decline related to the proportion of former high-ranking bureaucrats in the LDP?" By high-ranking bureaucrats, I mean bureaucrats who achieved the rank of head of a sub-ministerial bureau or higher, and not simply all bureaucrats who passed the A-level Civil Service Examination. Bureaus form the first layer of division within each ministry or agency.

- "Who has benefited from this decline?" If the bureaucracy has lost influence in policy making, then it is likely that LDP party politicians gained influence. The study will try to confirm whether this is the case and if so whether any subgroup within the LDP (politicians with certain career paths, for instance) have gained in particular.

- "Has the LDP become less dependent on the bureaucracy for developing, implementing, and evaluating financial policy?" I have chosen to focus on financial policy and the Ministry of Finance because the MOF is considered by Johnson to be among the least politicized and most independent ministries. Also, because it is widely considered to be the most powerful (it certainly has been the most successful in getting its alumni into the LDP), it thus represents the crucial case.

Research Hypotheses
1. "LDP recruitment and promotion has produced a decline in the position of former bureaucrats in the party." This can be specified in two forms:
   A. "Bureaucrats were recruited in great numbers during the occupation due to the power vacuum, then recruitment of bureaucrats declined sharply." Following the Japanese surrender of World War II, great numbers of politicians were purged from political life. Prime Minister Yoshida (1946-1947, 1948-1954) actively recruited
bureaucrats into his party, which was one of the precursors of the LDP. However, following the establishment of the LDP, bureaucratic recruitment fell sharply and eventually became insufficient to offset attrition once the bureaucrats recruited by Yoshida ended their political careers in large numbers. Accordingly, I expect to find an obvious decline in the percentage of the LDP Diet delegation with bureaucratic backgrounds elected in the three periods of official administrative reform efforts that I study later in the paper (namely, the early 1960’s, the early 1980’s, and the late 1990’s).

B. "The institutionalization of the seniority system for important posts works against former bureaucrats and for second-generation politicians." Under Prime Minister Yoshida and during the early years of the LDP, former bureaucrats were often given priority in the assignment of cabinet and top party posts, a practice known as "the Yoshida School". However, the seniority system of promotion took hold of almost all segments of Japanese society during the second half of the 20th Century. This tended to reduce the number of high-ranking bureaucrats in important posts, partly because they had to stay in the bureaucracy longer to reach a high rank, but mainly because their relatively late start in politics did not give them enough time to build up the seniority necessary to be assigned to top posts. Meanwhile, politicians who entered the Diet at a young age, and particularly those who inherited campaign organizations from their fathers and did not need to first prove themselves in another career, increasingly came to dominate top posts.

2. "The Ministry of Finance has become less capable of maintaining its functions and role in formulating and administering financial policy." MOF once had far reaching authority over fiscal and monetary policy as well as financial regulation. Over the years, its formal and practical functions have been reduced, notably its ability to set interest rates for commercial banks, its authority over the Bank of Japan, and its supervisory and auditory authority over private financial institutions. Moreover, some of its divisions and personnel have been stripped from it and made into new financial regulatory bodies, which eventually came together in the newly created Financial Services Agency. The Ministry of Finance has been left with little more than budgetary and revenue functions.

3. "The LDP has taken on a greater role in formulating and implementing financial
policy." LDP politicians have taken on a greater role in the formulation and implementation of financial policy through a variety of means. First of all, by creating new agencies involved in financial policy, they have increased the number of financial policy posts open to politicians and political appointees. Second, they have revised the Bank of Japan Law so that the central bank chief reports to the Diet rather than to MOF and so that key Bank of Japan policy decisions will be made by a committee of political appointees. Third, they have intervened actively in the regulation of the banking industry.

Units of analysis
For my time series data, the unit of analysis is all Japanese cabinets from 1955-2003, and also selected Lower Houses of the Diet elected between 1958 and 2000. Cabinet posts are almost always occupied by members of parliaments, as are all top LDP posts. I have data for every member of each parliament during this period, and the variables I am examining include age, number of times elected, district, party, intra-party faction, educational background, family background (whether or not second-generation), and career background (bureaucracy, business, entertainment, secretary to Diet member, etc.).

For my comparative case studies, the unit of analysis is government-sponsored administrative reform efforts, namely the (first) Provisional Administrative Reform Council (FPARC) in the early 1960's, the Second Provisional Administrative Reform Council (SPARC) in the early 1980's, and the Administrative Reform Commission (ARC) in the late 1990's. These groups issued mid-term reports and final recommendations, and then it was up to politicians to pass the legislation necessary to implement the recommendations. The reports show what was on the agenda and how it changed over time. Reform proposals can be categorized as decreasing bureaucratic influence, increasing bureaucratic influence, or neutral. By looking at which of these reforms were then enacted we can get a measure of how successful the bureaucracy was in warding off attempts to reduce its influence.

Logic linking data to propositions
For Proposition #1 to be validated, the overall number of former bureaucrats within the LDP should decrease throughout the period. The proportion
of former bureaucrats in LDP leadership should decrease as they lose priority in promotion, while second-generation LDP members should gain a greater percentage of leadership posts. Also, over time seniority should become the only significant factor in determining promotion to LDP leadership posts, with considerations of career background becoming insignificant.

For Propositions #2 and #3 to be validated, the case study representing the earliest period should show that reform proposals aimed at reducing the formal and practical functions and structures of the Ministry of Finance that appear on the official agenda of the Provisional Administrative Reform Council did not appear in the final report or were not implemented. The case study should also show that a large proportion of cabinet and party leaders at the time had bureaucratic backgrounds and that they opposed these reforms. The case study representing the latest period should show that similar reform proposals were implemented with the support of cabinet and party leaders, who mostly came from non-bureaucratic backgrounds. The case study representing the middle period should have intermediary results.

Criteria for interpreting data

For Proposition #1, measures of statistical significance will be used when appropriate. All results will be tested against the null hypothesis of no change. For non-statistical results emanating from the case studies, common sense appraisals of practical and statistical significance will be used.

IV. Methodology

For the time series data I use logit and probit models. For the case studies, I intend to use methods of cross case study analysis (Yin, 1985) and George's structured focused comparison (George, 198).

V. Expected findings

In summary, I expect that my statistical analysis will show a decrease in the overall number of former bureaucrats in the LDP and in particular former high-ranking bureaucrats. It will also show a decrease in the number of top party and cabinet posts held by former bureaucrats, that the priority in promotion that former bureaucrats once enjoyed disappeared, and that the seniority-based
promotion system tended to give preference to second-generation politicians.

My case studies analysis should show that former bureaucrats in the LDP supported delegating substantial authority to the bureaucracy and resisted attempts to curtail bureaucratic influence, i.e. acted as conduits for bureaucratic influence in the LDP rather than agents of LDP control over the bureaucracy. However, over time as former bureaucrats lost their pre-eminent position within the LDP, attempts to reduce bureaucratic influence were successful. These expected findings will provide a basis for challenging the Johnson and Inoguchi-Iwai hypotheses, and for proposing a new and revised theory of the relationship between Japanese politicians and bureaucrats.

The data on Diet and cabinet members has been collected and cross-referenced from the following sources:

- Internal-use election abstracts from the Asahi Shimbun Newspaper
- *Jiminto Seiken* by Seizaburo Sato and Tetsuhisa Matsuzaki (LDP Administration, Tokyo Chuo Koronsha, 1986)
- Newspaper reports of election results
- Web-sites maintained by the Japanese government, major political parties, major newspapers, and respected academic institutions.

Parts of my database will be made available on the website: http://japanese-politicians.org.

The following is a list of people I interviewed during 1999-2002:

- Seiko Noda, MP (LDP), Minister of Posts and Telecommunications
- Katsuei Hirasawa, MP (LDP), former Police Agency bureaucrat*
- Kensyo Sasaki, MP (Communist Party), Lower House Finance Committee
- Motohisa Furukawa, MP (Democrat Party), former MOF bureaucrat
- Kiyomi Tsujimoto, MP (Social Democrat Party), SDP Policy Affairs Research Committee Chairwoman
- Shuhei Kishimoto, MOF, Director of International Financial Markets Office, International Bureau
Masato Miyazawa: MOF, Deputy Director of Coordination Division, International Bureau
Bin Iwasaki: National Personnel Administration
Shoichi Royama: President of Takaoka National College
    vice chairman of the Financial Systems Council
    (an advisory panel to the finance minister)
Tetsuhisa Matsuzaki: Author, unsuccessful candidate for Diet (Democrat)
Michio Royama: Professor, Sophia University
Tatsuo Iwamura: Political Editor, Asahi Shimbun Newspaper
Hitomi Kuwa: Anchorperson for CNN, TBS, and TV Tokyo
Benjamin Fulford: Tokyo Bureau Chief, Forbes Magazine
Chris McAllum: Asian Editor, International Financial Review
* This was not an interview but rather a 90-minute debate broadcast live on a national radio network and a pre-debate conversation.
Chapter Two – Literature Review

The question I am trying to answer is “Has the Japanese bureaucracy been losing its influence in the policy making process?” The debate on the topic has been encompassed in the debate on Japanese economic development in the post-war era, and includes many topics, such as financial policy, administrative reform, and industrial policy, that make assumptions about the sources of policy. Therefore, this chapter will also trace the lines of the more general debate on who is responsible for policy making in Japan.

The retired bureaucrat / second generation cleavage that I use in this paper is not the traditional cleavage along which the LDP is divided. Early works on the LDP talk about a kanryo-ha/tojin-ha divide, with kanryo-ha meaning bureaucrat group and tojin-ha meaning party-man group. This categorization reflects the large numbers of former bureaucrats that entered politics in the immediate post-war era, largely recruited by Prime Minister Yoshida (a phenomenon awkwardly referred to as the “Yoshida School”). Many writers came to focus on these former bureaucrats as the key to explaining what they saw as bureaucratic domination of Japanese policy making.7

In response to the characterization, other writers started promoting an alternative cleavage in the mid-1980’s: the bureaucracy vs. zoku politicians (“tribes” of politicians with specialized interest and/or expertise in particular policy fields).8 This is not an intra-LDP cleavage, but rather a divide between the active bureaucracy in the various ministries and groups of select LDP members (including retired bureaucrats) who have obtained policy expertise in certain

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7 These include not only revisionists such as Chalmers Johnson, James Fallows, Clyde Prestowitz, and Pat Choate, but also writers closer to the pluralists line of thought, like Daniel Okimoto and to a lesser extent Francis McCall Rosenbluth and even some Liberals like Kenichi Omae and Hiroshi Kato (see bibliography).

8 The idea of zoku first surfaced in the popular Japanese media in the 1970’s. Michio Muramatsu introduced the idea to academia in the early 1980’s, and subsequently worked on the issue with Ellis Krauss. Takashi Inoguchi and Tomoaki Iwai have also done much work on zoku politicians (see bibliography).
areas, primarily through their work as politicians. Retired bureaucrats who enter politics join the policy tribe that deals with their former ministries, but they do not dominate these tribes or gain any special advantage. Membership in the tribes is informal, although it is often manifested in formal membership on Diet or LDP committees or in study groups. During the 1980’s some Japanese scholars also started paying attention to second-generation politicians as a phenomenon. These studies were primarily descriptive and did not attempt to divine policy implications from this phenomenon.¹⁹

The above mentioned literature fits into a greater discourse on Japanese political economy, where the principle debate has been between the “revisionists” (such as Chalmers Johnson) who see Japan as being ruled by the bureaucracy due to the domination of the LDP by former bureaucrats and pluralists (such as Inoguchi & Iwai) who see an LDP consisting of policy tribes holding their own against the bureaucracy due to their legitimate policy expertise.

I feel that a more useful cleavage for the purpose of analysis would be one between former bureaucrat and hereditary politicians. Former bureaucrats have had massive influence in the LDP over the years and have a very particular career experience, so should be considered as a distinct group. I feel that it is more meaningful to contrast them with second-generation politicians rather than zoku politicians in their “policy tribes” because second-generation politicians are fairly easy to define. Typically they are the sons of politicians, and when they are not they are usually a son-in-law or other anointed successor. There are a small number of cases of nephews or other more distant relatives winning a seat with minimal help from their senior relatives which could be considered ambiguous for definitional purposes. However, the entire zoku concept is poorly defined. When concrete criteria such as committee or study group membership are used, then zoku membership become too universal to be useful, and any efforts to trim down membership involves subjective assignment. Also, because former bureaucrats are automatically included as zoku members, they become merely a subset of the zoku category and thus it becomes impossible to analyze the importance of former bureaucrats in the LDP as a distinct group in comparison with zoku politicians. While there are some LDP politicians who are both second generation and former bureaucrats, their numbers are not so great as to blur the

¹⁹ These include Taichi Ichikawa and Terahisa Matsuzaki.
distinction to any significant degree.\textsuperscript{10}

Looking on second-generation politicians as the rivals to former bureaucrats rather than focusing on zoku politicians has more explanatory power, especially in regard to the reform of the Ministry of Finance during the late 1990’s. First of all, Inoguchi and Iwai state that the finance zoku is dominated by former bureaucrats, so the rise of the zoku phenomenon can hardly explain a shift in the LDP position on MOF reform. Furthermore, they say that zoku have concentrated in areas of potential pork-barrel spending such as construction, agriculture, and commerce.\textsuperscript{11}

The former bureaucrat/second generation dichotomy could be thought of as taking us full circle back to the kanryo-ha/tojin-ha (bureaucrat group / party man group) cleavage, with the second-generation politicians, who were in effect born into the LDP, being the ultimate form of tojin-ha. Whereas the original concept of tojin, or party-man, was simply any non-bureaucrat, a focus on second-generation politicians lends considerable explanatory power. It explains the decline of former bureaucrats in important party and cabinet posts, a decline even sharper than the overall drop in the former bureaucrat share of the LDP Diet delegation, thanks to the advantages that second-generation politicians have in accumulating seniority. This in turn helps to explain the policy and organizational setbacks suffered by the Ministry of Finance, which may have been triggered by scandals and policy blunders, but would not have been possible had MOF alumni still been in control of the party.\textsuperscript{12}

\textsuperscript{10} During the past four decades second-generation politicians in the LDP have numbered between 45 and 140, while former bureaucrats have numbered between 75 and 100. By contrast, only about 8-16 will belong to both groups (largely bureaucrats who marry the daughters of politicians).

\textsuperscript{11} Inoguchi and Iwai, pp.178-179 and pp.205-209

\textsuperscript{12} Of course, there are LDP politicians who neither inherited their political careers nor entered politics by way of the bureaucracy. These “other” politicians benefited neither from the favoritism shown to former bureaucrats under the Yoshida School nor from advantages in seniority, and as a result have as a group tended to occupied a subordinate position within the party.
Schools of thought

During the 1950's and 60's research on the Japanese political economy largely consisted of a debate over economic development between and among Japanese Marxists and Japanese neoliberals. By 1970 Japan's success attracted the attention of foreigners seeking answers not confined by the market or by capitalist exploitation. They tried to explain Japan's apparent success by emphasizing cultural factors. Prominent among these were James Abegglen's work on Japanese corporations (from which the term “Japan Inc.” derives), and Ezra Vogel's work on Japan's cultural differences (Japan as Number One). They were part of a school of thought that attributed Japanese success to Japanese business practices and to the close relationship between corporate Japan and the bureaucracy.

Nowadays, among mainstream scholars, three major schools of thought can be discerned. A "revisionist" school contends that Japan is ruled by bureaucrats, and gives them credit for Japan's rapid economic development. Pluralists put much more priority on the role of politicians in making policy. Finally, liberals are increasingly coming to the conclusion that bureaucrats control Japan, although they insist that their influence is negative and blame them for Japan's long economic slump.

Of course, there are considerable differences of opinion within these three schools. Furthermore, this is not an all-encompassing typology. Marxists, who are largely ignored by American students of Japanese political economy, contend that both politicians and bureaucrats have to a large extent been bought off by big business, the most influential point in the iron triangle.

As my study is focusing on a decrease in the influence of the Japanese bureaucracy in the policy making process, what is relevant about these literatures is the extent of the role they give the bureaucracy in forming policy in the first place and whether they offer any mechanism for a change in that influence over time.

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13 Chalmers Johnson, James Fallows, Karl Van Wolferen, Clyde Prestowitz, and Pat Choate.
14 Daniel Okimoto, Francis McCall Rosenbluth, Michio Muramatsu, Ellis Krauss, Takashi Inoguchi and Tomoaki Iwai.
15 Kenichi Omae and Hiroshi Kato.
Revisionists

Chalmers Johnson started writing about Japan in the 1970's. Japan was just starting to gain a lot of attention from academics due to its "miraculous" post-war economic recovery that went beyond merely rebuilding its pre-war industries. In less than three decades Japan had leapfrogged over the western European states to become the number two economy in the non-communist world. It was also loosing its reputation for low-quality industrial products (it is hard to believe that not so long ago "made in Japan" was synonymous for shoddy). Writers had started looking beyond market-based, neoclassical explanations for Japan's success. James Abegglen credited Japan's corporate culture while Ezra Vogel emphasized cultural explanations. Following pioneering work in Japanese by Kiyoaki Tsuji,16 Chalmers Johnson started focusing on the dominance of the Japanese bureaucracy as an explanatory variable, with the 1982 MITI and the Japanese Miracle opening a new chapter in the debate on Japanese political economy.

Johnson contended that non-market forces were the primary reasons for Japan's economic success, and put special emphasis on the role of the bureaucracy in general and the Ministry of International Trade and Industry (MITI) in particular. Johnson's rejection of liberal, market based explanations for Japan's economic success earned him the label of "revisionist" from earlier neoliberal writers. He and writers on Japanese political economy associated with the "revisionist school" have consistently pointed to the powerful bureaucracy as the hallmark of the Japanese political system. Article 41 of the Constitution stipulates that the Diet shall be the highest organ of state power, but Johnson says this is "untrue." He maintains that an elite state bureaucracy governs Japan. Johnson wrote in 1982 that "the elite bureaucracy of Japan makes most major decisions, drafts virtually all legislation, controls the national budget, and is the source of all major policy innovations in the system."17 In 1995 he reiterated that "who governs is Japan's elite state bureaucracy."18

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17 Johnson 1982, pp.20-21
18 Johnson 1995, p.13
In explaining MITI's ability to formulate and implement successful policies, Johnson first noted that MITI recruited its personnel from the top echelon of Japan's most elite educational institutions, and in particular from the University of Tokyo Law Department. The examinations necessary for entrance to the University of Tokyo and for entrance into the civil service screened out all but the best personnel, he argued, and then MITI's internal promotion system insured that only truly capable people were in control of policy making.

In addition, Johnson said that Japanese politicians gave MITI a great deal of leeway in policy making. While he admitted that politicians needed pork-barrel projects to maintain voter loyalties, he said they got all the pork they needed from less elite ministries, such as the "public works" ministries of construction, transportation, and agriculture. Politicians knew that industrial policy was too important to be toyed with for narrow political purposes, and this left MITI largely unpolticized.

Furthermore, Johnson said that MITI had the tools it needed to implement policy. Prime among these tools in the first quarter century of the post-war era was its control over foreign exchange. Any company needing to import raw materials or capital equipment had to get a license from MITI, and this allowed it to guide economic development. There are well-publicized blunders made by MITI, such as its initial refusal to allow Sony to buy the rights to produce the newly-invented transistor, but on the whole Johnson contends that MITI bureaucrats were able to make the right calls.

Another important policy tool that MITI bureaucrats had at their disposal was the Fiscal Investment and Loan Program (FILP). FILP is the "exit door" for the massive amounts of funds that come under government control through "entry doors" such as postal savings deposits and government pension plans. The size of FILP once rivaled that of the national budget, but the Diet has no direct authority over FILP investment plans. It is the Ministry of Finance and not MITI that makes final decisions on FILP spending, leading Johnson to also confer elite status to MOF, although he says that MOF usually goes along with MITI's requests for allocation of FILP funds. FILP is used to finance a myriad of public sector financial institutions and corporations, which in turn finance private sector projects. This financing is done more in accordance with policy concerns and less in accordance with market dictates.