

POLITICS OF SMALL BUSINESS POLICYMAKING IN JAPAN, 1955 TO 1993

By

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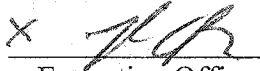
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Abstract

POLITICS OF SMALL BUSINESS POLICYMAKING IN JAPAN, 1955 TO 1993

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This dissertation analyzes the process of small business policymaking in Japan from 1955 to 1993. It will ask who is the most influential in the process, and how the most powerful actor exerts influence. It also will examine what kind of role each of political actors, such as legislators, the prime minister, leaders of the ruling Liberal Democratic Party, bureaucrats and interest groups, play in the process.

The dissertation will review existing models on the political power structure of Japanese politics, such as statism, corporatism and pluralism. Against these models, I will construct a ruling party dominance model by elaborating power relationships among political actors. My model and the three existing models describe a distinctive political power structure and pattern of policymaking process. Then I will derive hypotheses on the policymaking role for each political actor from the four models. Four case studies on small business policymaking processes will be conducted to test the hypotheses.

The dissertation will also examine a popular view that the locus of policymaking power has shifted from bureaucrats to politicians. To test this view, one case is selected from each decade in the post-World-War-II period. The policymaking process is divided into

four dimensions: initiation, formulation, mobilization, and decision. Each case study will examine who controlled the process and what kind of role each political actor played in each dimension of the process. Through the four case studies, the dissertation will demonstrate that the Liberal Democratic Party has been paramount in small business policymaking from 1955 to 1993.

Prefatory Notes

1. All Japanese names in this dissertation will be given with the family name last in the customary Western way.
2. The phrase “small business” means “small and medium-sized enterprise”.

Abbreviations

JCP: Japan Communist Party

JSP: Japan Socialist Party

LDP: Liberal Democratic Party

MITI: Ministry of International Trade and Industry

PARC: Policy Affair Research Council

SMEA: Small and Medium Enterprise Agency

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I. Introduction

This dissertation will examine the political power structure and process of small business policymaking in Japan. Who is the most influential in the policymaking process? How does the most powerful actor exert influence? What kind of role does a particular political actor play in the process? These are the main concerns of the dissertation.

Who governs in Japan has been one of major debates among students of Japanese politics. Although there has been a great deal of debate about this topic, a consensus has not yet emerged: some maintain that bureaucrats govern, while others maintain that the ruling Liberal Democratic Party (LDP) controls. In this dissertation, I would like to argue that the ruling party is the dominant political actor in policymaking process. And its main goal is to elaborate what kind of political power structure the ruling party has developed, and to demonstrate how the ruling party overrules policy preferences of other political actors, such as bureaucrats, interest groups, opposition parties, and sometimes even the prime minister, in the process.

I will review models of political power structures that have been advocated to explain Japanese politics. The major models are pluralism, corporatism and statism. Each model proposes a distinct power structure and pattern of policymaking process. And each model differently predicts who the dominant political actor is. Statists argue that bureaucrats are dominant, corporatists maintain that most policy decisions are made in stable consultative relationships between bureaucrats and interest groups, and pluralists assert that all political actors have some kind of political resources and can influence, more or less, policymaking process. It is my contention that these models do not

adequately explain the dominant role of the ruling party in policymaking process. This contention is the starting point for this dissertation.

Against the existing models, I will construct a ruling party dominance model by elaborating the power relationships among political actors. How do leaders of the ruling party, such as the president, secretary general, or policy chief, control its rank-and-file? How do they control legislative activities in the Diet, Japan's parliament? How can they influence the prime minister and bureaucrats? By answering these questions, I will construct the model.

My model describes a power structure and pattern of policymaking process in Japan differently from the existing models. According to my model, the ruling Liberal Democratic Party can monopolize power to enact laws. Bureaucrats, knowing the power of the ruling party, will write bills that please, or at least not antagonize, the ruling party. The prime minister would propose policies that would enhance the party's popularity and support the party's decisions. And leaders of the ruling party construct an informal decision-making procedure called *jizen shinsa* [prior consultation] that allows them to monitor legislative works of bureaucrats and to make sure that bills include only legal provisions that they like or at least can tolerate. In the end, the ruling party would play a paramount role in policymaking process under the model.

After having elaborated the four models of Japanese politics, I will derive hypotheses on the policymaking role of each political actor from the four models. To derive hypotheses, I will ask the following questions: What would happen when the ruling party and the prime minister have opposite policy preferences? Whose policy preference is likely to prevail in such a case? What would happen when the ruling party

and bureaucrats have different policy preferences? Whom would an interest group lobby? Each model should answer these questions differently. Their answers will become hypotheses on the policymaking process.

To test the hypotheses on the policymaking role of political actors, I will conduct four case studies of the processes of small business policymaking. Compared with other public policies, such as industrial targeting, budget, or foreign trade, small business policy has received less attention from researchers of Japan's political economy (Whittaker, 1997, 1). When there are studies on small businesses, they mostly focus on industrial organization, business management or a history of small business policy (Kiyonari 1997; Teraoka 2000; Whittaker 1997; Arita 1997). There are not many studies that exclusively focus on the policymaking process and try to explain how each political actor affects the process.¹

I believe this limited attention is unwarranted, given that most people work in small businesses. About seventy percent of all employees work at small businesses with less than 100 employees (Below p. 86). And small business policy is one of major public policies in Japan. According to Bradley Richardson, each small business benefited \$6,866 from government programs and loans in 1990, each big business only \$84 (1997, 260). Moreover, due to a decade-long depression, Japan seems to have entered into an era of massive layoffs.² Where will fired workers go? They will most likely go to a smaller company or start their own business. Because of these concerns, I believe that small business policy deserves more scholarly attention. It is my wish that this

¹ Exceptions are Kobayashi 1957 (his work of 1973a and 1973b are an English translation of his 1957 work) and Watanabe 2000.

² For example, Fujitsu announced a plan to lay off 16,400 employees on 20 August 2001; Toshiba 18,800 on 27 August 2001; Kyosera 10,000 on 30 August 2001.

dissertation would contribute to the understanding of the legislative process of small business policymaking in Japan.

The case studies of the processes of small business policymaking will try to discern whose policy preference is most clearly reflected in final bills and decisions. It is my assumption that we can know who actually controls the policymaking process by discerning whose policy preference is most favored in final outcomes. Each case study will identify an issue in small business policy, discuss economic backgrounds that have generated the issue, and describe a political balance of power in the Diet and factional balance of power in the ruling LDP. After having presented the economic and political background of small business policy issues, each case study will specify policy preferences of each political actor on the issues, and observe what kind of role each political actor has played in policymaking process. By doing so, I believe I can test the hypotheses on the policymaking role and assess which model better fits to what the case studies have found.

The dissertation will also examine the popular opinion that there was a shift in policymaking power from bureaucrats to politicians in the post-World-War-II Japan. Many observers of Japanese politics have asserted an increasing policymaking power by politicians and a decreasing influence of bureaucrats. They have generally pointed out the internationalization of the Japanese economy and the long reign of the Liberal Democratic Party as the causes of this policymaking power shift. Although these factors are relevant, I believe that the political power structure that the ruling party has constructed is more important: it remained the same between 1955, when the party was formed, and 1993, when the party lost the sole control of the government. If the political

power structure did not change during this period, the power relationship between politicians and bureaucrats could not change so drastically. Thus, according to my model, there is no shift in policymaking power from bureaucrats to politicians during this period. To test the popular view and my hypothesis, I will select each case from the 1950s, 1960s, 1970s and 1980s. I hope this arrangement will allow me to examine whether the alleged power shift has really occurred or not. All case studies that I have conducted will address issues that arose when the Liberal Democratic Party solely controlled government. The dissertation will not discuss Japanese politics after 1993. Since 1993, when the LDP lost its sole reign, governments have been coalition governments. The political power structure under coalition governments is beyond the scope of this dissertation, and the ruling party dominance model may not apply to policymaking processes under coalition governments.

For the rest of this Introduction, I would like to elaborate the concept of political control. The dissertation will ask who is the most influential in the process of small business policymaking in Japan. To answer this question, we have to know principal political players and their role in policymaking process. Principal political actors are easily identified. They are the prime minister, leaders of the ruling Liberal Democratic Party, bureaucrats, interest groups, and opposition parties.³

³ I consider judges and the media as political actors. But I exclude them from this dissertation because of the following reasons. If judges are actively declaring laws unconstitutional, lawmakers have to be mindful of judges' response when they legislate. If that is the case in Japan, judges should be considered important political actors and therefore should be given a consideration in this dissertation. But judicial activism is severely restrained in Japan. One reason is that the Supreme Court Secretariat (the court's administrative office) can obstruct the career promotion of judges who were critical of the Court's rulings. The cases of Judges Hirayu and Hanada showed how slow the career promotion of judges who were critical of the Supreme Court could be (Ramseyer and Rosenbluth 1993: 162, 169, 172). The Secretariat is controlled by the Supreme Court. And the ruling party can influence the appointments of Justices of the Supreme Court. Thus, indirectly, ruling party leaders can put judges who are amenable to their political ideology in the Supreme Court and prevent those judges who are critical of their legislation and decisions from taking higher positions in the judicial apparatus. Moreover, since Justices are not granted a life tenure, ruling

But who is the most influential among them? How can I know that someone has influence over or controls the policymaking process? The answers to these questions depend on the meaning of the word “control”. The term “control” has the same meaning as “govern” or “rule” in this dissertation. Regarding the meaning of “control”, we have to heed a distinction between positive decisions and negative decisions. James Buchanan and Gordon Tullock argued that a positive decision “authorizes action for the social group” and a negative decision “effectively blocks action proposed by another group” (1965, 258). They concluded that “[i]f a group is empowered to make decisions resulting in positive action by/for the whole group, we shall say that this group effectively ‘rules’ for the decisions in question” (Ibid.). I believe that their distinction should be adopted as the criterion of political control in this dissertation. The distinction would allow me to identify a political actor who is really controlling.

By applying the distinction of Buchanan and Tullock to this dissertation’s case studies of policymaking process, I assume that a political actor who can make decisions resulting in positive action is a political actor who can succeed in inserting his policy preference in the final text of bills or in final decisions. The more you insert your policy preference in final outcomes, the more you control the process.

I also believe this formulation would allow me to distinguish political actors who control process from political actors who influence process. In a democracy, all political

party leaders are assured that Justices, who have turned out to be critical of their political ideology, would not stay long in the Supreme Court. This might be one explanation why judicial activism is weak in Japan. Thus I will not include judges in this dissertation. Also the dissertation will not elaborate on the media. The media informs the public of political events and thereby affects electoral outcomes. And television and newspaper companies send their employees to governmental deliberation councils, and engage in political action lobbying for legislation which is related to freedom of speech or media regulation. However, I fail to conceptualize the policymaking role of the media in the theoretical framework that this dissertation will present. Can the media be treated as an ordinary interest group? I feel that the media is more than that. Then what is it? Since I do not know the answer, I will not include the media in this dissertation.

actors can influence policymaking process more or less, but not all actors can control policy outcomes by influencing the process. As we will see, many political actors do influence the policymaking process in Japanese politics. Interest groups can bring economic issues to the public attention, bureaucrats can formulate bills, and opposition parties can modify and, sometimes, block bills in the Diet. But if their policy preferences are not reflected in the final text of the law, they are not controlling policy.

More specifically, if you yield to your opponents on the most crucial issue in the policymaking process, you are not controlling the process no matter how you make points on other minor issues. I hope this criterion would allow me to identify who is the most influential in policymaking process and to evaluate which model, the statist, corporatist, pluralist or ruling party dominance, accurately identifies the most powerful political actor in Japan.

A plan of the dissertation is as follows. In Chapter II, the three existing models of political power structures and policymaking process in Japan will be reviewed. The chapter will specify major attributes of the statist, corporatist and pluralist models. Chapter III presents the ruling party dominance model by answering the following questions. How is a relationship between LDP leaders and its rank and file institutionalized? What is the relationship between the prime minister and LDP leaders? What is the relationship between high-ranking bureaucrats and LDP leaders? After having elaborated the four models, I will derive hypotheses on the role of political actors in policymaking process. The hypotheses will be stated in Chapter IV. In Chapter V, the state of small businesses in Japan will be described. How many small businesses are there? What kind of political activities are they engaged in? What kind of political

resources do they have? Institutions for small business policymaking will also be elaborated. Chapter VI will discuss the research design. Then, from Chapter VII to X, four case studies of the processes of small business policymaking will be presented. Chapter XI will assess how the case studies support or contradict the hypotheses. Finally, Chapter XII will conclude the dissertation by discussing its implications and by summarizing its major arguments and findings.

II. Existing Models of Japanese Politics

Who governs is a question that has been asked since the age of Plato and Aristotle, according to Robert Dahl (1961, v). Political scientists have proposed models of political power structures to answer this question. By constructing models, they have also elaborated the role of political actors in policymaking process. Indeed, it is only through the analysis of policy process that enables us to appreciate the effect of political power structures and who is really governing.⁴ Models developed in the United States have been imported in Japan to study Japanese politics. In this chapter, I will review three major models of political power structure. They are statism, corporatism and pluralism. Before I present the ruling party dominance model, it is important for us to be clear about what the assumptions and propositions of the existing models are. The following review will focus on the works of major proponents of each model. First, major core arguments of each model will be extracted from existing works. Then the review will specify what each model has said about the policymaking role of political actors such as the ruling party, bureaucrats, opposition parties and interest groups.

⁴ Some scholars think that the study of political power structure and that of public policy should be separated. For example, Hideo Otake thinks that the study of public policy focuses on the *evolution* of policy, while the study of political power structure focuses on the process in which political actors maintain and increase their influence (Otake, 1990, 204-5: the italic is mine). Christa Altenstetter even says that “[a]uthors using these models [i.e., statism, corporatism and pluralism] are known to almost exclusively ignore policy substance, policy *content*, policy-making process other than power relationship terms, and policy outputs and outcomes” (in communication at my dissertation committee: the italic is mine). I am skeptical about this kind of separation of analysis. How could one ever know if a particular political actor has political power without seeing the *evolution* and/or *content* of public policy? Policymaking is one of the most important activities in which political actors can exert their political influence.

II-A. Statism

II-A-1. Core of Statism

Statists are those who attribute a dominant role in policymaking to state officials. The core assertion of statist is that state officials can make public policies insulated from the pressure of interest groups. Eric Nordlinger said that public officials could free themselves from social constraints and even bring a shift in social preferences when state and societal preferences diverge. Then public officials can translate their own preferences into authoritative actions (1981, 7). Steven Krasner argued, "American central decision-makers have sought a consistent set of goals...in the area of foreign raw materials" (1978, 6). He went on to say, "public officials have usually been able to resist private pressure to take actions that were not perceived as furthering the national interests" (Ibid., 18). Fred Block reformulated a Marxist presupposition that a ruling class controlled the state. He said that state-managers had autonomy in policymaking because they had a broader perspective of the state's economy than individual industries of economy did (1977, 398).

II-A-2. Sources of Bureaucratic Power

How can bureaucrats have such an influence in policymaking process? Possible sources of bureaucratic power are (a) hidden information, (b) broad-based jurisdiction, (c) delegation, and (d) multiple principals. First, bureaucrats might have secret information and technical expertise that politicians lack (Arrow, 1985, 39).

Second, broad-based jurisdiction should increase the power of a bureau. It grants to a specific bureau an institutional power to make decisions on the matters within a

designated issue area. Also, broad-based jurisdiction might prevent a bureau from being captured by one industry (Uriu, 1996, 34). If a bureau has jurisdiction over a large number of industries, it does not matter if one industry under its jurisdiction disappears. Because there are other industries under its jurisdiction, the bureau can still have administrative authority over the remaining industries and justification to acquire part of national budget. Thus the bureau can resist policy demands of declining industries and keep its autonomy.

Delegation is a source of bureaucratic discretion. A legislative branch usually delegates policymaking and rulemaking power to bureaucrats. And in a highly advanced industrial society, delegation tends to be broad. Operating under vague standards such as “just and reasonable”, “fair and equitable”, and “public convenience, interest, or necessity”, bureaucrats enjoy wide latitude to make rules and define priorities in their area of responsibility, according to Elena Kagan (2001, 2261).

Finally, the existence of multiple principals⁵ also increases bureaucratic power. Thomas H. Hammond and Jack H. Knott demonstrated that the more divergent the preferences of the President, the House and the Senate were, the more autonomous an agency would be (1996, 143). If all political principals want policy A, bureaucrats must implement policy A: no autonomy. But if the President wants policy A, the House wants policy B, and the Senate wants policy C, bureaucrats might be able to choose among policy A+B, policy B+C, or policy C+A: thus the possibility of autonomy exists.

Masahiko Tatebayashi agreed with Hammond and Knott on this point. He observed that

⁵ The term “principal” is initially used in the legal world. Shareholders are principals while directors are their agents in a corporation. Agents are supposed to advance the interest of principals. The view of agent-principal relationship was introduced by Ramseyer and Rosenbluth (1993) into Japanese politics.

the Murayama cabinet,⁶ which was supported by three political parties that had slightly different policy preferences, created “a large policy space within which bureaucrats [could] maneuver” (2000: 54, 69). I have no doubt that hidden information, broad-based jurisdiction, delegation and the existence of multiple principals should increase the power of bureaucrats. But can these factors tell anything about the power relationship between bureaucrats and other political actors? More review on the literature of statism is needed.

II-A-3. Statism in Japan Study

Although the literature on statism in the United States does not exclusively mean bureaucrats by the phrase “state officials”, in Japan the “state” means bureaucrats. The argument that bureaucrats were the most influential in policymaking was presented as a bureaucratic dominance model during the 1950s.

Kiyoaki Tsuji, Yoshitatsu Oka, and Takeshi Ishida said that bureaucrats were perceived to be the sole defender of national interests and the unparalleled paragon of national conscience both before and after the Second World War (1958, 118). They listed three reasons why the bureaucracy was maintained and strengthened after the war. First, the United States used it to implement its policies regarding the postwar occupation of Japan. Second, the Japanese people believed that the only way to keep stability and order was to hold governance under the imperial hierarchy and bureaucratic paternalism, not under political competition among political parties. Third, political parties lacked the knowledge and capability for modern administration. The last argument is important for

According to them, the ruling party is a principal while a prime minister is an agent for the party. Similarly, the ruling party is a principal while a bureaucracy is an agent for the party.

⁶ The Murayama cabinet was a coalition government that was supported by the Liberal Democratic Party, the Japan Socialist Party, and *Sakigake* [Harbingers] from 1994 to 1996. According to the perspective of

our purpose. They elaborated the impotence of political parties. Political parties had only weak organizations. For example, the ruling Liberal Democratic Party had 100,000 members in the 1950s, while British Conservative Party had 2.8 million members, they said. And according to Tsuji, Oka and Ishida, political parties did not have capability enough to formulate complicated and professional policies and to direct the implementation process of public policy. On the other hand, they said that bureaucrats showed neutrality and professionalism (1958, 120-122). It seems to me that Tsuji, Oka and Ishida were saying that bureaucrats were more powerful than politicians are because the former had expertise and integrity and the latter were impotent. Their work is probably the first exposition of the bureaucratic dominance model.

Michio Muramatsu opined that the bureaucratic dominance model is still influential in Japan's academia (2001, 132). One can easily find the words "bureaucratic dominance" [*kanryo shihai*] in Japanese newspapers and magazines. One reason why the bureaucratic dominance model still holds sway over Japanese intellectuals was a conventional explanation of Japan's industrialization in the latter half of the nineteenth century. According to the conventional wisdom, bureaucrats led the rapid industrialization (Pempel, 1982, 256; Pempel, 1992, 19-20; Aberbach et al., 1990, 461; Muramatsu, 2001, 132).⁷

principal and agent, there were three principals under this government, and bureaucrats are agents for the coalition government.

⁷ Ramseyer and Rosenbluth (1995, 1-3, 56) rejected this view, and specifically pointed out that the bureaucrats who led Japan's modernization were not a bureaucrat in the ordinary meaning of the term; they

II-A-4. Johnson's Model

Chalmers Johnson is probably the most famous advocate of the statist model of Japan's politics. According to him, "Japan's postwar economic triumph...is the best example of a state-guided market system" (1982, vii). He called this state-guided market system a "developmental state" (Ibid., 17). It is a state that placed a top priority to "industrial policy, that is, to concern with the structure of domestic industry and with promoting the structure that enhances the nation's international competitiveness" (Ibid., 19). And the heart of industrial policy is the "selection of the strategic industries to be developed" (Ibid., 28).

In this model, elite economic bureaucrats of the Ministry of International Trade and Industry (MITI) played the most influential role in policymaking. Johnson said that "[t]he history of MITI is central to the economic and political history of modern Japan" (Ibid., viii). According to him, "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" (Ibid., 20-21). The MITI "considers that one of its primary duties is precisely the creation of those powerful interests in the economy that favor shifts of energy and resources into new industries and economic activities" (Ibid., 28). The tools of implementing such a policy included tariffs, preferential commodity taxes, import restrictions, the supply of lower interest funds, and others.

Politicians in Johnson's model act as a "safety valve" for the bureaucracy, meaning that politicians insulate bureaucrats from the influence of interest groups so that they can carry out main tasks of the developmental state (Ibid., 44). According to him,

were politician-cum bureaucrats "who overthrew an shogunate and launched their own experiment [i.e., a new political regime]".

“the LDP’s role is to legitimate the work of the bureaucracy” (Ibid., 50). And “the Japanese Diet is not a ‘working parliament’ in Western sense, ‘one which supervises the administration by continuously sharing in its work’. The most important work of the government is done elsewhere and is only ratified in the Diet” (Ibid., 48). He did not discuss the role of opposition parties in the policymaking process in his 1982 book.

Interest groups appear in his model. But according to him, “there is no theory of pluralism that legitimates their political activities” (Ibid., 49). Interest groups were not given any significant role in policymaking. Johnson said that “[m]ost of the ideas for economic growth came from the bureaucracy, and the business community reacted with an attitude what one scholar has called ‘responsive dependence’” (Ibid., 24). The role of citizens is much smaller. “[T]he citizens themselves were not consulted” (Ibid., 49-50), and the government deliberation councils do not provide “civilian input to the bureaucracy’s decisions” (Ibid., 48).

By the 1990s, arguments and evidences against Johnson’s model mounted (Friedman 1988;⁸ Calder 1993;⁹). Some scholars doubt a causal relationship between the MITI’s industrial policy and Japan’s postwar economic growth (Kitayama, 1985, 54; Krugman, 1997, 285-7¹⁰). Many doubt the assertion that bureaucrats are immune from the pressure of politicians and interest groups in policymaking (Sakakibara 1993, 132 and

⁸ David Friedman demonstrated that initiatives for economic development in machine tool industry came from industrialists, not bureaucrats. This view challenges Johnson’s assertion that “[m]ost of the ideas for economic growth came from the bureaucracy”.

⁹ Kent Calder demonstrated that most government economic aid went to declining industries, not to “strategic” industries as Johnson asserted.

¹⁰ Paul Krugman said that “[s]ome of Japan’s most successful industries, notably automobiles and consumer electronics, were not among those that received high priority” (1997, 286). This allegation casts doubt on Johnson’s thesis that the MITI led the postwar economic success of the Japanese economy.

1991, 51-54;¹¹ Uriu, 1996, 35¹²). Moreover, Johnson did not explain how bureaucrats could agree on national interest and goals (Muramatsu and Krauss, 1987, 517). Although the validity of his model seems to decline among scholars of Japanese politics these days, there is no question that his work was a major contribution. A barrage of criticism against his model attests its impact. I believe that any study of Japanese politics should consider his work, and that some of his arguments should be consulted for further study of bureaucracy in Japan.

II-A-5. Katō's Model

In addition to the above criticisms against Johnson's model, it is not clear to me how bureaucrats actually influence politicians in his model. Junko Katō (1994) used a strategic perspective to explain how bureaucrats influence politicians.¹³ For her, bureaucratic power is not derived from monopolizing government information (Ibid.: 11, 37, 229), tricking politicians (Ibid., 238), or by concealing fact or leaving others ignorant or misinformed (Ibid., 37). Rather, it is derived from "strategic use of policy information and technocratic expertise" (Ibid.: 37, 229).

¹¹ Eisuke Sakakibara demonstrated that most government finances went to local public works and that government budget is highly responsible to politicians' desire to satisfy their constituents' needs (1993, 132). Also Sakakibara (1991) pointed out that only 1.1 percent of central government budget went to the MITI (6.5 % for the Ministry of Construction, 4.5 % for the Ministry of Agriculture, Forestry and Fisheries, and 1.4 % for the Ministry of Transport). He said, "the public works face of the Japanese government...dominates the politics of economic policymaking" (1991, 52).

¹² Robert Uriu argued that bureaucrats were responsive to the various demands to perpetuate troubled industries (1996, 35). His finding casts doubt on Johnson's assertion that the MITI had a capacity to create "powerful interests in the economy that favor shifts of energy and resources into new industries and economic activities" (above p. 16).

¹³ Katō unequivocally said that her approach is not the statist one (1994, 54). But according to my standard, if you argue that bureaucrats are more influential than politicians in policymaking process, you are a statist. Since Katō said, "[o]bservation of the political intervention...is not enough to lead to the conclusion that the influence of politicians exceeds that of bureaucrats" (1994, 53), she is a statist. Thus I include her in the statist section.

Bureaucrats use their information and expertise in a manner that “politicians benefit from supporting” their policy proposition. In her case study of tax reform, she asserted that not all ruling party politicians had the same policy preference on tax reform; some politicians opposed proposals by the Ministry of Finance, but others were more susceptible to them. The ministry courted the latter type of politicians. Then the ministry used their information and expertise so that it could enlist their support. Those politicians who supported the ministry, generally senior members, did so because they thought that supporting the ministry’s plan would show off their policy expertise, and therefore that the demonstration of policy expertise would increase their reputation and influence in the party (Ibid., 232). In other words, “bureaucratic influence hinged on whether bureaucrats found ways to exploit different interests of politicians in the same incumbent party” (Ibid., 233).

Thus, according to Kato’s bureaucratic model, bureaucratic influence hinges on the support of politicians. If so, I have to say that bureaucrats are far weaker than politicians. Indeed, she says, “bureaucrats’ influence depends on contingent factors and does not constitute an institutional necessity” (Ibid., 13). Thus her claim for bureaucratic influence appears modest in the eyes of Johnson and readers like me, who wonder how she, who said that power of politicians did not exceed that of bureaucrats (1994, 53), would describe the power relationship between politicians and bureaucrats. However, her work has shown, at least, when and under what conditions bureaucrats have influences on politicians in policymaking process.

I feel that Johnson and Kato have made interesting propositions. According to Johnson, bureaucrats increase their political power by talking to other political actors and

by pointing to national interests. “Look! That is the goal for us to proceed in order to occupy a honorable place in the world!” Who could really overrule them, when bureaucrats appeal to national interests with seemingly correct arguments and evidences? And according to Katō, bureaucrats increase their political power by incorporating senior politicians into their causes through strategic usage of expertise. Who could go against bureaucrats’ expertise, assertion of national interests and support of senior politicians? Although I am skeptical about how easily political actors can agree on national interests and the extent to which politicians allow themselves to be influenced by bureaucrats, Johnson’s and Katō’s propositions are good statist propositions on the power relationship between bureaucrats and politicians. The propositions should be kept in mind throughout the dissertation. As a summary, I will list a selective group of attributes of the bureaucratic model in Table 2-1.

Table 2-1: Attributes of Statism

1	Bureaucrats are immune to the pressure of politicians and interest groups.
2	Major policy ideas come from bureaucrats.
3	Bureaucrats use information and expertise in a strategic manner.
4	Politicians are a “safety valve” in policymaking.
5	Bureaucrats are the most influential in policymaking.

II-B. Corporatism

II-B-1. Core of Corporatism

Corporatism¹⁴ is one way of reflecting societal preferences on public policies.

There are three major features in this model of policymaking: (a) the existence of peak

¹⁴ Philippe Schmitter defines corporatism as follows: “Corporatism can be defined as a system of interest representation in which the constituent units are organized into a limited number of singular, compulsory, noncompetitive, hierarchically ordered and functionally differentiated categories, recognized or licensed (if

organizations, (b) stable consultative relationship between a government bureau and a peak organization, and (c) delegation of official authority to private actors.

Key policymakers in the corporatist model are government bureaus and “peak organizations” (Lijphart, 1999, 171). A peak organization is the one that can control a myriad of smaller trade associations or labor unions in a given industry. A government grants a peak organization a representational status for the industry and regularly consults with it on policy matters (Offe, 1981, 137). In return, the government expects the peak organization to ensure that its subordinate members follow the government’s policies (Cawson, 1986, 68; Zeigler, 1988, 16-7). Generally the government includes peak organizations for labor and the capital in the institutionalized policymaking process (Williamson, 1989, 25; Wilson, 1985, 104).

The second major attributes of corporatist model is stable consultative relationship between government bureaus and peak organizations. Ronald Hrebener said that peak organizations are *part* of a government’s “decision-making machinery” in the corporatist model (Hrebener, 1997, 265; Shinohara, 1983, 335-6). Decisions are made after the representatives of the capital, the representatives of the labor, and relevant bureaus negotiate at formal government commissions and councils.

This is the major difference from the pluralist model of policymaking. Interest groups exist *outside* the government in the pluralist model of policymaking (Hrebener

not created) by the state and granted a deliberate representational monopoly within their respective categories in exchange for observing certain controls on their selection of leaders and articulation of demands and supports” (1979, 13). Another theorist, Alfred Stephen, defines corporatism as follows: “Corporatism refers to a particular set of policies and institutional arrangements for structuring interest representation. Where such arrangements predominate, the state often charters or even creates interest groups, attempts to regulate their number, and gives them the appearance of a quasi-representational monopoly along with special prerogatives. In return for such prerogatives and monopolies the state claims the rights to monitor representational groups by a variety of mechanisms in order to discourage the expression of ‘narrow’ class-based, conflictual demands” (1978, 7).

opt.cit.). It is up to politicians and/or bureaucrats to decide whether opinions of interest groups should be adopted or rejected. Interest groups do not share in the authority to make decisions. The only way for interest groups to influence policymaking is by lobbying in the pluralist mode of policymaking.

A delegation of official authority to private actors is the third main attribute of the corporatist model. Wolfgang Streeck and Philippe C. Schmitter coined the phrase “private interest government” to elaborate this phenomenon. Private interest government is a government’s “attempt to utilize the *collective self-interest* of social *groups* to create and maintain a generally acceptable social order” (the italics are their) (1985, 16).

Collective self-interest is “the interest of an organized group to strive for a ‘categorical good’ which is partially compatible or identical with a ‘collective good’ for the society as a whole” (Ibid., 17). In this phenomenon, government bureaus often accept “‘voluntary’ collective self-regulation as an alternative to authoritative state regulation”, (Ibid., 20) even though it means substantive concession and a loss of control on their part.

II-B-2. Pempel and Tsunekawa’s Model

The work of T. J. Pempel and Keiichi Tsunekawa (1979) is probably the earliest and the most famous exposition of the corporatist model of Japan politics.¹⁵ They characterized Japan as “corporatism without labor” (Ibid., 246).¹⁶ It was “a high degree of corporatized interest mediation in many sectors, but virtually none in the important area of labor” (Ibid., 245).

¹⁵ Other major proponents of the corporatist model are Ehud Harari (1986), Haruo. Shimada (1983), Ki-Man Kim (1989).

¹⁶ Graham Wilson agreed with them. He said, “Japan may be labeled a country which has ‘corporatism without labor’... In Japan only business and government are involved. ... [F]or unions in Japan (as in

Pempel and Tsunekawa said, “[v]irtually all major industries are organized into powerful, hierarchical trade associations” (Ibid., 244). The top hundred of these, along with about 700-800 of the largest companies, belonged to the Federation of Economic Organizations [*Keidanren*], a peak organization for the capital. Also over 99 percent of the 6 million farm families were organized into 7,000 branches of the National Association of Agricultural Cooperatives in the 1970s. According to them, other professions and industries, according to them, “from doctors, housewives, veterans, private university presidents and local officials, through cabaret hostesses and bathhouse, are organized in similarly influential and generally monolithic interest associations” (Ibid., 245).

An exception for this general pattern is labor. Only 34 percent of Japanese workers are organized.¹⁷ The largest organized labor union did not enjoy “an official state sponsorship, legal monopoly or even a de facto claim to being the ‘official’ voice of labor” (Ibid.). The cause of the weakness of labor organizations has been said to be the “fact of persistent enterprise unionism” (Ibid., 263).¹⁸ Also, the right to strike is prohibited by law for government employees, who account for an important portion of organized labor force.

Pempel and Tsunekawa used the corporatist model to explain the Japanese industrialization (since 1868), and wartime (from the late 1930s to 1945) and early

France or the USA) have lacked the strength to make their participation in the making of major decision necessary” (1985, 101).

¹⁷ In 1979 when Pempel and Tsunekawa wrote their article, there were seven major umbrella labor organizations. But the landscape of Japan’s labor unions changed drastically on 21 November 1989. The Japan Labor Union All Federation [*Nihon Rōdō Kumiai Sō Rengo Kai*, in short *Rengō*], that included about eight million members, was established as a national center for labor. But there are still other umbrella labor organizations, although small. And it is not clear how authoritative the status of the Rengo is. Thus I use the work of Pempel and Tsunekawa to elaborate the corporatist aspects of the Japanese politics.

postwar (from 1945 to the end of the 1970s) Japanese political economy. They maintained that corporatism is useful in explaining the relationship between the government and agriculture and small business through the periods. But they also said that corporatism was ill-suited to explain the relationship between the government and big businesses, especially since the 1970s, when economic internationalization became intense and big businesses became competitive (1979, 265-266).

In agricultural and small business sectors, cooperatives were organized under laws. And the cooperatives became “exclusive channels for the distribution of government subsidies and public loans from special banks” (Pempel and Tsunekawa, 1979, 250). During the wartime period, fertilizers and machines were rationed through the cooperatives (Ibid., 251). Cooperatives of small businesses were allowed to form cartels which coordinated the level of production and investment, and the ways of marketing their products under laws (Ibid., 260). These channels gave the government the instrument to control these sectors, thereby contributing to the emergence of corporatism in Japan.

II-B-3. Shinohara’s Model

Hajime Shinohara used a corporatist framework to explain the working of the Second Provisional Commission on Administrative Reform [*Dai niji rinji gyosei chosakai*] in the early 1980s. He asserted that corporatism emerged for the first time in Japanese politics with the Commission (1983, 335). The Commission included the representatives from the capital, the bureaucracy, scholars, the media, and labor unions.

¹⁸ There were industry-wide labor unions for certain industries such as steel. They are conglomerates of enterprise unions within an industry.

Like ordinary deliberation councils, the representatives of the capital and bureaucrats took an upper hand in the Commission. But the Commission was different from ordinary deliberation councils on two points. One was that it was authorized to discuss and make recommendations on a broad range of issues: it was allowed to “examine overall the state of administration” in order to slash the fiscal deficit (Ibid., 337). Thus it covered information disclosure, decentralization, correction of unfair taxation, reduction of subsidy, reorganization of bureaucracy, and the reduction and/or privatization of public corporations. Second, the Commission was granted a kind of political power. Its decisions could not be rejected, ignored or modified by the Diet, the ruling Liberal Democratic Party and bureaucrats (Ibid., 336). In consequence, official authority was delegated to the Commission to some extent. Representatives from the capital, scholars, the media, and labor unions are part of the government’s decision-making machinery. Since labor was represented in the Commission, Shinohara characterized this type of policymaking as “corporatism with weak labor representation”.¹⁹

II-B-4. Upham’s Model

Frank K. Upham elaborated the delegation of official authority to private actors in Japan. Upham said that “Japanese bureaucrats delegate their public power to private parties and function not as direct implementers of regulatory policy, but, at most, as overseers of its private implementation” (1997, 399). He believed that his descriptive

¹⁹ Mitsutoshi Itō found that the government and the representatives of the management and labor of big businesses formed a coalition in the Second Provisional Commission on Administrative Reform (1988, 56). The three actors agreed on the reduction of income tax and the elimination of special benefits for agriculture, doctors and labor unions of public corporations. But Ito did not try to explain this policymaking in the corporatist framework.

model represented a “common style of regulation in Japan” (ibid., 400), thereby claiming the applicability of his model to most industries in Japan.

In this model of privatized regulation, “formal law is irrelevant” (Ibid., 402). Activities of private parties are “totally informal, without any legal identity whatsoever”, and government agencies avoid “legal scrutiny because none of the public or private behavior is directly actionable in administrative litigation” (Ibid., 402). The end result of this privatized regulation is that economic structures are “at best of questionable legality and at worst clearly illegal” (Ibid., 402) and that the development of industries are distorted by erecting “barriers to entry” (Ibid., 408) and by “substantially raising prices for consumers” (Ibid. 417).

According to Upham, “the bureaucrats’ delegation to private actors is virtually total...without any principled bureaucratic oversight” (Ibid., 401). For example, when the Ministry of Transportation licenses new entrants to the transportation industry, it relies on statutory deliberative councils, which are tripartite entities of industry, consumers, and the public interest (i.e., scholars), under the Land Transportation Law. Replacing the ministry, the councils make the most difficult and sensitive decisions. Although the role of deliberative councils varies among industries, in the case of transportation, the ministry followed the council’s recommendation in 99 percent of the cases.²⁰

II-B-5. Political Actors in Corporatism

In the corporatist model, the roles of bureaucrats and interest groups are emphasized, and some even suggest that the executive branch is bypassed (Harrison,

1980, 73; Hrebendar, 1997, 265). According to Pempel and Tsunekawa, interest intermediation between government bureaus and industries was carried out primarily through bureaus and peak trade associations (1979, 259).

When a government is to initiate a major reform, it usually establishes deliberation councils to forge a consensus among concerned parties. Deliberation councils, called “*shingikai*”, are an important forum for interest groups to express their opinions and requests. Deliberation councils are composed of representatives from a wide range of occupations. Scholars and representatives from trade associations and financial institutions generally account a large share of members in the cases of small business policymaking.²¹ But nearly 300 government deliberation councils are devoid of labor representation, according to Pempel and Tsunekawa (Ibid., 262).²² Although labor unions increased explosively in numbers after the end of the Second World War, they failed to acquire a “formalized role for labor in the making of state policy or in the political economy” (Ibid., 262).

The Diet and political parties play a limited and complementary role in policymaking process. Pempel and Tsunekawa said that the “role of parliament and the political party system did serve to mitigate certain of the seemingly total control [i.e., bureaucratic rules]”(1979, 261). But largely the government relied “almost exclusively on the state bureaucracy to effect” economic policies (Ibid., 259). Bureaucrats controlled the “generation and implementation of policy proposals” (Ibid., 263). Opposition parties

²⁰ Morita (1988, 202) quoted by Upham, 1997, note 135 at p. 433.

²¹ For an example of the composition of deliberation councils, see below pp. 111-2.

²² I have some doubt on their assertion. For example, the Small and Medium Enterprise Policy Deliberation Council under the Ministry of Economy, Trade and Industry, which I will elaborate below (pp. 111-2), has one representative of labor. And the Second Provisional Commission on Administrative Reform that I have mentioned above (pp. 29-30) had a representative of labor. Moreover their assertion

had only “a minor toehold for parliamentary influence and policymaking penetration” (Ibid.).

I have doubts about some of Upham’s assertions regarding the delegation of official authority. I think that his statement that “formal law is irrelevant” is simply wrong (above p. 24). J. Mark Ramseyer and Minoru Nakazato would reject his assertion that “none of the public or private behavior is directly actionable in administrative litigation” (above p. 24).²³ But I believe that his assertion that the delegation of public power to private parties is extensive in Japan fits well with the corporatist core proposition of the delegation of official authority.

Finally, one fact that readers should be informed about deliberative councils is that their opinions are not binding on the government. It is entirely up to the government whether their opinions should be adopted or rejected. This fact would weaken the corporatist nature of policymaking process in Japan because it would decrease the power of private actors to incorporate their policy preference into government bills. To sum up, I extract the major attributes of the corporatist model in Table 2-2.

Table 2-2: Attributes of Corporatism

1	An industry has a peak organization that can control trade associations in the industry.
2	There is stable consultative relationship between peak organizations and relevant bureaus.
3	Private sectors share in public power with the government.
4	Bureaucrats and interest groups are the most influential in policymaking process.
5	Politicians intermediate between bureaucrats and interest groups.

was made in 1979. Thus I am not sure whether their assertion is still correct today. However, I have no doubt that the labor representation is weak. Therefore I will use their assertion.

²³ Ramseyer and Nakazato say, “[t]hese claims of virtually complete nonreviewability are wrong—and wrong because they both miss the obvious and misstate the law. They miss the obvious because to obtain judicial review of administrative guidance, a firm need simply flout it. The agency will then either roll over, play dead, or it will sue. If it takes the first tack, the firm wins. If it takes the second, the firm obtains its review” (1999, 205).

II-C. Pluralism

II-C-1. Core of Pluralism

Pluralism is another type of polity in which citizens are guaranteed “widespread and relatively evenly shared opportunities to influence public opinion and governmental decision-making” (Outhwaite et al., 472).

II-C-2. Dahl’s Pluralism

Robert Dahl is considered to be the main advocate of pluralism.²⁴ For him, there is no center of political power in a pluralist polity. He said, “there was no clear center of dominant influence in the order. No single group of unified leaders possessed enough influence to impose a solution” (1961, 198). The reason for the lack of the center of political power is that any political coalition is temporal.²⁵ And it is difficult to have political power over many areas of public policy since political influence in any single-issue area requires a high level of specialization.²⁶

Political power is available for anybody. He said, “virtually no one, and certainly a group...is entirely lacking in some influence resources”²⁷. Thus an ordinary citizen like Miss Mary Grava, an unmarried woman who had lived all her life on Truman Street, New Haven, can get involved in political decision-making (Ibid., 193). Dahl said that social and economic notables could hardly be said to have any direct influence on political

²⁴ Nordlinger (1981, 44).

²⁵ Dahl said, “coalition that finally won was created ad hoc; it represented the temporary convergence on a common policy of different leaders drawn from a number of different centers of influences. That winning coalition fell apart as soon as victory was secure” (1961, 198).

²⁶ Dahl said that individuals who are influential in one sector of public activity tend not to be influential in another (Ibid., 170).

²⁷ “Resource” here means “time, money, control over jobs, control over information, social standing, charisma...” (Dahl, 1961, 226).

decisions. He went on to say that their influence on public education and political nomination was “nil” in New Haven (Ibid., 79).

In Dahl’s model, politicians are given initiating and negotiating roles in the policymaking process. He described that the New Haven mayor Richard C. Lee took a leadership in the redevelopment issues (1961: 61, 309) and education policy (Ibid., chapter 17). Bureaucrats are granted a “large measure of autonomy”. The reason for this bureaucratic autonomy is due to Lee’s belief that “interference with the decisions of properly constituted agencies was undesirable” (Ibid., 191). Citizens were largely described as indifferent about political matters (Ibid.: 151, 191, and 305).

II-C-3. More Skewed Versions of Pluralism

There are skeptical views on the ubiquitous availability of political power. Theodore Lowi called the American politics “interest group liberalism”. By this phrase he meant that America “sees as both necessary and good that the policy agenda and the public interest be defined in terms of the organized interests in society” (1969, 71). In his model, “the role of government is one of ensuring access particularly to the most effectively organized” (Ibid.). Thus the unorganized and less effectively organized citizens are effectively deprived of political power.

Gwen Moore and Theodore White think that, after all, there is a center of political power. After interviewing 545 leaders of major political, economic and social institutions in 1971 and 1972, Gwen found that a “considerable integration exist[ed] among elites in all major sectors of American society” (1979, 689).²⁸ And White found

²⁸ Trying to deny the finding of Gwen Moore, Heinz et al. presented a case that “the network structures do not have central cores—i.e., the structures of interest group interrelationships lack authoritative private

“iron triangles” in Washington D. C. He said, “political scientists identify in Washington examples of what they call an ‘Iron Triangle’—an interlocking three-way association between a well-financed lobby (whether it be mining, education, highways, oil or other areas), the congressional committee or subcommittee that makes laws on such subjects, and the bureaucracy in Washington which applies these laws. When these three—the committee, the lobby and the bureaucracy—in any given area all agree, wash each other’s hands with influence, information and favors, they are almost impervious to any executive or outside pressures” (1973, 71-72).²⁹ I cannot tell which version, pure or skewed, of pluralism is valid. Both versions can probably find support, and both are probably useful to explain some political outcomes. But let us keep these two versions in mind, and see the literature of pluralism in Japanese studies.

II-C-4. Pluralism in Japanese Studies

Pluralist explanations of the Japanese power structure and policymaking emerged during the 1980s, with Hideo Ōtake (1979), Michio Muramatsu and Ellis Krauss (1987), Takashi Inoguchi (1983), and Seizaburō Satō and Tetsuhisa Matsuzaki (1986) as main proponents (Muramatsu et al., 1992, 65). Each student understands the term “pluralism” and the nature of Japan’s polity differently.

Hideo Otake argued the emergence of a pluralist society in which private companies maintained a high level of autonomy from the government (1979, 1). Political parties and bureaucrats, too, could maintain their autonomy from the pressures of interest

mediator” (1990, 356). But Moore asserted the integration among politicians, bureaucrats, and businesspersons. Heinz et al. denied only the integration among interest group leaders.

²⁹ William Browne denied the pluralist assumption of competition between interest groups (1990, 477). He found that “most interests accommodate one another by concentrating on very narrow issues” (Ibid.).

groups (Ibid., 196). Although big companies had abundant political resources, the institutionalization of the decision-making system enabled politicians and bureaucrats to deflect the policy demands of big businesses. He thought that the source of political influence was expertise and information. He went on to say that since it was difficult to accumulate information and expertise, no particular political group could have professional influence over several issue areas (1979, 195). This is similar to Dahl's proposition on the difficulty in accumulating policy expertise across multiple issue areas (above p. 34).

Michio Muramatsu and Ellis Krauss (1987) described Japan as a "patterned pluralism". According to them, "Japanese policymaking is characterized by a strong state with its autonomous interests and an institutionalized accommodation among elites, interacting with pluralist elements" (Ibid., 537). They denied a "ruling triad" of the bureaucracy, big businesses, and the Liberal Democratic Party, and found the "growing number of pluralist elements" that "evolved over the postwar period and emerged in the 1980s" (Ibid.).

Japan is pluralist because "influence is widely distributed, not concentrated: interest groups have many points of access to the policymaking process". But, in their model, pluralism is "patterned" by the "relatively fixed and institutionalized party, bureaucratic, and ideological ties" (Ibid., 538). The ties prevent political alliances from becoming fluid, meaning that big businesses constantly ally with the LDP and labor unions with opposition parties.

Takashi Inoguchi (1983) coined the phrase "bureaucratic-led mass-inclusionary pluralism". Inoguchi believed that the Japanese polity was pluralistic because its

bureaucracy was responsive to a variety of social groups (Inoguchi and Iwai, 1987, 13). Japan's bureaucracy incorporated a class of samurai who lost their status in the Meiji regime from 1870s to 1890s, a group of nationalists and Marxists during the 1930s and 1940s, and public interest groups such as welfare, anti-war, and anti-pollution during 1970s.

Japan's pluralism was led by bureaucrats, not by politicians (Ibid., 6). But bureaucrats were also responsive to the ruling party and opposition parties. Opposition parties played an important role in reflecting policy demands of social groups that were not well represented in the polity. Inoguchi believed that Japan's bureaucracy was relatively immune from politics (Ibid., 9). Leaving decisions on concrete government benefits such as subsidy and public works to politicians, bureaucrats accumulated administrative information, such as personal and household information, at the center, and controlled society with such information. Presenting their arguments as national interests, bureaucrats resisted selfish policy demands that politicians represented for interest groups.

When Muramatsu and Krauss and Inoguchi argued that a wide range of societal groups have access to the bureaucracy, they seemed to follow Dahl's pure version of pluralism. But when Muramatsu and Krauss said that pluralism is "patterned", it sounds to me that they are incorporating an element of the skewed version of pluralism. And when Inoguchi said that pluralism is led by bureaucracy, it seems to me that he is incorporating a statist element into his model. Now, how should we understand their models? Some might feel that their models, by compounding different themes into one model, would allow researchers to make sense of a complex political world. After all, the

real political world might be complex enough to embrace some elements from all the pure pluralism, skewed pluralism, statism and corporatism. But it is difficult for me to figure out how different themes can cohabit in their theoretical models; the more statist elements there are in a pluralist model, the less pluralist the pluralist model is. In the end, they are providing a thick description of Japanese politics; they are not providing a parsimonious theory.³⁰ But let us move on and see what they have said about the policymaking role of political actors.

II-C-5. Political Actors in Pluralism

Muramatsu and Krauss argued that politicians and bureaucrats have roughly equal influence in policymaking, although they observed a “diminishing control of the bureaucracy over social interest groups” (1987, 540) and an “increasing policy expertise of politicians” (Ibid., 541). The causes of the diminishing bureaucratic control are trade liberalization, financial deregulation, and a weakening of the effectiveness of financial and administrative persuasion and control (Ibid.). Also Seizaburo Sato and Tetsuhisa Matsuzaki believed that bureaucrats maintained a relatively strong autonomy toward politicians, and that politicians did not have an obvious primacy toward bureaucrats (1986, 168).

Politicians play an intermediating role between interest groups and the bureaucracy (Muramatsu and Krauss, 1987, 540; Muramatsu et al. 1986). When political issues involve more than two ministries, such as the Postal Saving System³¹ issues

³⁰ For the trade-off between a thick description and a parsimonious theory, see Waltz 1979; Krugman 1994a.

³¹ The Postal Saving System (PSS) is the largest government financial institution in the world. The main businesses of the PSS is saving, insurance and postal services. The money collected through the PSS from

between the Ministry of Finance and the Ministry of Posts and Telecommunications (Rosenbluth, 1989, 11), politicians are called upon to resolve disputes between the ministries.

Interest groups are actively involved in policymaking. According to Muramatsu's 1980 survey³² on interest groups in Japan, between 65 and 91 percent of interest groups claimed a success in having government realize their demands (Muramatsu and Krauss, 1987, 533). Deliberation councils are an important forum for interest groups to express opinions in policymaking process (Ibid., 534, 539). Interest groups closely affiliated with opposition parties are successful in vetoing proposals, while interest groups closer to the LDP are successful in having the government adopt their requests (Ibid., 534).

The proponents of the pluralist model recognize opposition parties have some influence on policymaking. According to Muramatsu and Krauss, opposition parties had influenced policymaking process by "obstructionist tactics" and external mobilization of supporters prior to the 1970s. But in the 1970s, when the political power of opposition parties equaled that of the LDP, they influenced policy outcomes by revising budget and by influencing other legislation at Diet committees (1987, 534-5). Kent Calder (1988, 203) argued that the source of power of opposition parties is a short period of the Diet's regular session (i.e., 80 days compared with 150 days in America). In order to pass legislation in such a short period of time, the ruling party has to accommodate policy demands of opposition parties. Although we have gone through a jungle of pluralist models, major propositions of pluralism can be summarized in Table 2-3.

the general public is distributed to a myriad of public corporations, and sometimes even to the Tokyo stock market to boost declining stock prices. Politicians heavily influence the distribution of money under this system. Many advocate a reform or the abolition of the system (Cargill et al. 1997, 136-8; Anderson 1990).

³² The result of the survey was presented in Muramatsu et al. 1986.

Table 2-3: Attribute of Pluralism

1	There is no center of political influence.
2	Nobody is entirely lacking political resources.
3	Nobody exerts political influence over multiple issue areas: influence is specialized.
4	Bureaucrats can maintain a certain amount of autonomy.
5	Opposition parties have some influence in policymaking.

II-D. Limits of Statism, Corporatism and Pluralism

Statism, corporatism and pluralism describe a distinctive type of political power structure and pattern of policymaking process. For statists, policymaking is top-down from the government to the private sector and dominated by the bureaucracy. For corporatists, it is a fairly fixed interaction between bureaucrats and peak organizations that have effective control over their subordinate groups. For pluralists, it is a relatively flexible interaction among politicians, bureaucrats and a variety of interest groups.

However, it is not clear to me why each pattern of policymaking has emerged. They do not specify the factor that makes each pattern possible (Otake et al., 1996, 198). It is asserted in Dahl's pluralist model that bureaucrats can play an important and autonomous role in policymaking process (above p. 28). But why should politicians allow bureaucrats to act autonomously? Bureaucrats might undermine the policy preferences of politicians. Although Mayor Lee may be decent enough to embrace the principle of bureaucratic neutrality, most politicians are probably not. Similarly, why should politicians allow bureaucrats to play not only autonomous but also the most influential role in the statist model? Does the expertise of bureaucrats really allow them to dominate the policymaking process? Why don't politicians get policy knowledge from interest groups and override arguments of bureaucrats in order to advance their own political interests? And why should politicians leave such a precious source of power and

money as policymaking to a coalition of bureaucrats and interest groups in the corporatist model? These models remain incomplete unless they provide theoretical arguments to answer these questions.

Nor do these models differentiate the policymaking role among politicians: there is no difference in policymaking roles between the prime minister, ruling party leaders and its rank-and-file lawmakers. The three models bracket all types of politicians in one category of political actor as “politicians” and contrast them with other categories of political actors such as bureaucrats and interest groups. Although the models can provide hypotheses on the relationships among politicians, bureaucrats and interest groups, they cannot explain the power relationships among politicians. What kind of prediction can the statist model make if the prime minister and ruling party leaders have different policy preferences? What kind of prediction can the corporatist model make if party leaders and its rank-and-file have different policy preferences? The three models have been proposed to answer questions of inter-political actor power relationship (e.g., power relationship between politicians and bureaucrats), and are not intended to answer the questions of intra-politician power relationship (e.g., power relationship between the prime minister and ruling party leaders). But if there has emerged a theoretical framework that can reasonably explain both inter-political actor and intra-politician power relationships, these models will be severely put on the defensive.

I believe that the three models do not adequately emphasize the role of the ruling Liberal Democratic Party in policymaking process. The view that the LDP is the most influential in policymaking process was raised by the early 1980s. Muramatsu’s 1980 survey on interest groups showed that many politicians and bureaucrats thought that the

ruling party was the most influential in policymaking (Muramatsu et al. 1986). Also, Ōtake (1979), Inoguchi (1987), and Satō and Matsuzaki (1986) recognized an important role for the LDP in the policymaking process and described how the party exerted influence in the process. But they did not consciously develop a theoretical framework that is able to not only explain their observations but also generate new hypotheses on the party's policymaking role. This is the primary motivation for me to develop a ruling party dominance model and to write this dissertation. In the next chapter, I would like to construct my model of Japanese politics.

III. A Ruling Party Dominance Model of Japanese Politics

I reviewed the existing statist, corporatist and pluralist models of Japanese politics in the previous chapter. I also explained why I feel the existing models lacking. In this chapter I would like to present a ruling party model by elaborating the power relationships among political actors.

In my view, leaders of the ruling Liberal Democratic Party play a dominant role in policymaking process in a political world. But more specifically what do I mean when I say that the ruling party plays a dominant role in the policymaking process? I have the following image. Leaders of the ruling party can control its rank-and-file members, overrule the prime minister, dictate to bureaucrats, cajole opposition parties, and resist interest groups. How can this be possible?

III-A. Basic Outline of the Model

The basic outline of the ruling party dominance model goes as follows. First, the Japanese constitution grants the sole power to enact laws to the Diet. Since the ruling party is by definition a majority party in the Diet, it can monopolize the power if party members are united. If the ruling party can monopolize the lawmaking power, there is no way for other political actors, such as the prime minister, opposition parties, bureaucrats and interest groups, to control legislative process and overrule the ruling party. Although bureaucrats have expertise and interest groups have expertise and money, they do not have the authority to pass bills. Thus the first proposition is that the ruling party can monopolize the lawmaking power.

Second, if the ruling party were the sole holder of legislative power, other political actors would become very mindful of policy preferences of the ruling party. For they know that they could not achieve their goal in policymaking process if the ruling party were determined to oppose their goals. Therefore, the prime minister would consider how the ruling party would react when he initiates a new policymaking process. Bureaucrats would consider how the ruling party would react when they are writing bills. Interest groups would work hard to convince influential ruling party members of the merits of their policy proposals. This is a phenomenon called “anticipated reaction”, which I will elaborate later (below, p. 60). Thus, the second proposition is that political actors would anticipate the reaction of the ruling party and behave accordingly.

But how can the ruling party actually know that other political actors indeed anticipate and behave so as to advance, or at least not undermine, their policy preferences? I propose looking at institutions, and find out prior consultation between the ruling party and bureaucrats. As we will see, prior consultation allows the ruling party to consent to the legislative activities of bureaucrats at every important stages of lawmaking process. Without the consent of the ruling party, bureaucrats cannot proceed, and, if they do, the ruling party might overturn their decisions later. Thus the third proposition is that the ruling party can monitor bureaucrats through prior consultation.

In sum, the crux of the ruling party dominance model of Japanese politics is threefold. The Constitution allows the ruling party to monopolize the power to enact laws. And other political actors know this reality very well and anticipate its reaction and behave accordingly. Finally prior consultation makes sure that other political actors indeed advance the policy agendas of the ruling Liberal Democratic Party.

III-B. Elaboration of the Model

I have provided a rough outline of the ruling party dominance model in the previous section. In this section, I would like to elaborate the model by especially exploring power relationships among major political actors. For ruling party leaders to play such a dominant role in the policymaking process, they must have the right kind of political power structure so that they can overrule policy preferences of other political actors to control policymaking process. To show that they do have this kind of power structure, I have to answer, at least, the following questions.

1. How can LDP leaders control its rank-and-file members who might have different policy preferences in order to formulate the party's policy position?
2. How can LDP leaders make sure that LDP members will support the party's policy position in the Diet?
3. How can LDP leaders make sure that the prime minister will work for them?
4. How can LDP leaders make sure that bureaucrats will work for them?
5. What is the relationship between LDP leaders and interest groups?

III-C. Leaders and Rank-and-File of the Liberal Democratic Party

Before controlling other political actors, leaders of the ruling party must be able to control the party's rank-and-file members. How do they do that? This is a vital question and the first hurdle for the ruling party dominance model to overcome. If party leaders cannot control their members, they cannot monopolize power to enact laws. If some members of the ruling party frequently join opposition parties, as often happen in American politics, policy preferences of opposition parties become laws. And if the

ruling party cannot monopolize the lawmaking power, other political actors, such as interest groups and bureaucrats, would belittle the ruling party and be less mindful of its reaction. The proposition of anticipated reactions would collapse. Moreover, a door would open widely for bureaucrats to use their expertise strategically so as to crack the unity of the ruling party. Some members might be persuaded by bureaucrats' arguments and vote against their party's policy positions. If that happens, the statist model would be affirmed. However, the party's institutions allow leaders to control its members. They have control over electoral nominations, political careers, the lawmaking process, and political funds.

III-C-1. Party Leaders

First of all, who are the party leaders? Generally speaking, they are the president, vice president, secretary general, chairperson of the Policy Affairs Research Council (PARC)³³ and chairperson of the Executive Council³⁴ of the party.³⁵ They are leaders because party rules grant them formal power. It is only their decisions that enable the party to express its policy position to the public and to approve and introduce bills into the Diet.

³³ Policy Affairs Research Council is the Liberal Democratic Party's organ that considers policy matters for the party. See below p. 60.

³⁴ The Council is the LDP's highest decision-making body. See Thayer, 1969, pp. 254-68. See below pp. 60-1.

³⁵ Nathaniel Thayer said that the chairperson of the PARC, the vice president, the secretary general, and the chairman of the Executive Council were four senior party officials (1969, 208). *Tōsanyaku* [the party's triumvirate] is publicly regarded as the LDP's leadership, including secretary general [*Kanjichō*], chairperson of the PARC [*Seichō kaichō*], and chairperson of the Executive Council [*Sōmu kaichō*] (Ramseyer and Rosenbluth, 1993, 84). See also, Mochizuki, 1982, 142.

But are they really leaders? In this dissertation, real party leaders are leaders of factions³⁶. They are real leaders because, as we will see, they have several institutional powers to control the behavior of their members. Formal party leaders cannot take major political actions unless they get an approval from crucial factional leaders who can command a majority of LDP lawmakers.

III-C-2. Politics of Factions

A faction is a group of LDP lawmakers headed by senior politicians. Party leaders such as the president and secretary general do not directly control the party's rank-and-file members. Factional leaders control their own members, and power relations or negotiation among factions affects the party's decisions. Thus it is understandable for someone to see factions as primary units of the Japanese politics. For example, Robert A. Scalapino and Junnosuke Masumi said that "[t]he primary unit of Japanese politics...was the leader-follower group—the *ha*, or faction" (1964, 18: the italic is theirs). Since this dissertation tries to explain how party leaders control party members, however, I cannot consider factions as the primary unit of Japanese politics and the unit of analysis.

III-C-3. Electoral Nomination

How do party leaders control the behavior of the party's rank-and-file? The first institutional power that party leaders have is their power to control electoral nomination. The party's rules grant its leaders the power to endorse electoral candidates. It is said that the LDP's headquarters makes electoral endorsements after it receives

³⁶ A faction is a group of LDP lawmakers headed by a boss or senior politicians.

recommendations from local branches of the party (Satō and Matsuzaki, 1986, 59). Party endorsements generally go to incumbents.

But is the party label valuable for incumbents and/or challengers to the extent that they would obey party leaders in order to maintain and/or acquire party endorsement? If electors vote for a particular candidate not because of his personality but because of the political party to which he belongs, it can be said that the party label matters. And when the party label matters, a high support for a party must lead to a high electoral rate for its candidates, and a low support should lead to a low electoral rate. Gary W. Cox and Frances M. Rosenbluth (1995) demonstrated that a decline in party support decreases the probability of incumbents' reelection in Japan. This means that the party label matters. If the public votes only for the personality of candidates, a decline in party support should not have any impact on the probability of incumbents' reelection.

Factional politics intensify when the party is to decide who gets its electoral endorsement. As mentioned above (above p. 54), elections are an important opportunity for each faction to expand its power, and getting a party endorsement for the faction's prospective members is the first step for its expansion. The faction that produces the president usually gets a lion's share in the party endorsement for new candidates. Thus the Tanaka faction, that produced Prime Minister Kakuei Tanaka,³⁷ got fifteen endorsements when the party endorsed 41 new candidates for the 37th General Elections in 1972, while the next largest Fukuda and Ōhira factions got only seven each (*Nikkei*, 16 November 1972, p. 2).

³⁷ He served as prime minister between 1972 and 1974.

III-C-4. Political Career

The second institutional power that party leaders have is their power to affect the political career of its rank-and-file members. According to Thayer, “[t]here are better than 200 posts in the party and government to which appointments must be made every year” (1969, 35). Chairpersons of standing and special committees in the Diet have to be filled out in the Diet. Ministers and vice ministers have to be appointed in the government. Appointments are valuable for lawmakers: appointments make their resume look good, and allow them to utilize the government’s resources to serve their constituents.

The secretary general of the LDP makes all these appointments. Appointments are made on the basis of factional balance of power. It is said that factional bosses make lists of their members from which the secretary general and president appoint to political positions, and “stand ready to defend the members’ interests when the appointments are made” (Thayer, 1969, 35).

LDP lawmakers climb up a career ladder as they accumulate the passage of election each time. According to Satō and Matsuzaki (1986, 39), their advancement shows a pattern, as it is shown in the Table 3.

Table 3: Pattern of Career Advancement for LDP Lawmakers

Times of Passage	Career
1	Apprenticeship
2	Director [<i>Riji</i>] of Diet standing committee, vice chair of a division of PARC ³⁸ , vice minister (<i>seimu jikan</i>)
3	Chair of a division of PARC
4	Vice secretary general
Over 5	Candidacy for ministers

[Source: Satō and Matsuzaki, 1986, 39]

Satō and Matsuzaki observed that lawmakers were treated equally until they entered a cabinet for the first time. But after that, career advancement is up to the capability of each lawmaker. Thus party leaders can affect the political career of their members until the latter get the first cabinet appointment.

III-C-5. Lawmaking

The third institutional power that party leaders have is the party's power to control the lawmaking process. The authority to make law is the source of political funds. Interest groups and citizens give politicians political funds because they want politicians to incorporate their policy preferences into legislation. The party allows its members to get involved in the lawmaking process so that they could get political funds from interest groups and citizens. But the party's lawmaking structure allows its leaders to table bills that they do not like. Any bill has to go through three deliberative stages before reaching the Diet.

Each LDP lawmaker belongs to a particular standing committee of the Diet, and automatically becomes a member of division [*bukai*]³⁹ of the LDP's Policy Affair Research Council that corresponds to the Diet's committee. Each lawmaker can belong to three divisions according to a party practice. Deliberation at divisions is the first hurdle for any bill to pass. It is said that decisions at divisions are unanimous (Iwai, 1988, 169). The unanimous rule gives each member of division political power, at least the power to oppose bills that he or she does not like. Thus any interest group and citizen has

³⁸ PARC stands for the Policy Affair Research Council, the LDP's institution that formulates bills and policies.

³⁹ The Policy Affair Research Council has many subgroups that specialize in a particular issue area such as agriculture, commerce and industry, welfare, and others. Each subgroup corresponds to a Diet committee

to persuade and give political contributions to members of a division in which bills that affect their interests are deliberated. Naturally, rational lawmakers will choose divisions where they can most effectively expand their political fortunes (Murakawa, 1989, 272).

Since lawmakers assert various political demands, deliberation at divisions could stalemate. In that case, the chairperson of the Policy Affair Research Council makes decisions (Murakawa, 1989, 276). It is suggested that the chairperson comes from factions allied with the party's president (Thayer, 1969, 218).

If a bill gets an approval from the Policy Affair Research Council, it goes to the Executive Council [*sōmukai*]. Here party leaders control the policymaking process. Thayer said, "[f]ormulating policy is one act and in the conservative party, its forum is the policy affair research council...deciding policy is another act and its forum in the conservative party is usually the executive council" (1969, 207). At the Executive Council, chairpersons of Policy Affair Research Council divisions explain the purpose of the bill, and party leaders give political consideration to bills (Murakawa, 1989, 277).

III-C-6. Political Funds

The fourth institutional power that party leaders have is their power to monopolize power over electoral nominations, political careers and the lawmaking, but not over political funds, because individual lawmakers can gather money by themselves. Nonetheless, the party leaders can control how much money the party distributes to its members. The more members need the party's money, the more leaders can influence them.

that has a jurisdiction over the same issue area. I will call the subgroup as a division so as to avoid confusion with Diet committees.

The *Asahi Shimbun* speculated in 1964, “[i]n low house elections, the cost per candidate averages perhaps 15,000,000 yen. But there are men who spend 30,000,000 yen” (*Asahi Shimbun*, August 4, 1964, p. 2, quoted by Thayer, 1969, 29). A recent survey shows that an average LDP lawmaker accumulated 131,720,000 yen for political fund in 1996 (Sasaki et al., 1999, 21). Donations from citizens and interest groups, income from fund-raising parties, and subsidies from the LDP headquarters were the main sources. Each lawmaker has three ways of gathering money: a *kōenkai*, a fund control group (*shikin kanri dantai*), and the LDP’s local branch. A *kōenkai* is a group of grassroots supporters for a particular legislator, and is registered with a local government. Each lawmaker can have one fund control group, according to the 1995 revision to the Political Fund Law [*Seiji Shikin Kisei Hō*], Law No. 194 of 1948. The group is registered with the Ministry of General Affairs [*Sōmushō*], and symbolizes the nationwide activities of a lawmaker.

The LDP has one local branch in each electoral district. And the head of a local branch is a Diet member who is elected from an electoral district where the branch is located. Since a Diet member controls his local party branch, donations from citizens and corporations to the branch are subject to his control. Money that is collected through a local party branch accounts for about 33 percent of the total political fund for a lawmaker according to the survey (Sasaki et al., 1999, 21). Being a LDP legislator guarantees access to that money. And he has to keep on a good terms with the party leadership if he wants to maintain the access to that money. Also, the headquarters of the LDP gives a subsidy to local party branches. The survey shows that the subsidy accounts for 37

percent of the money that is gathered through the local party branch. According to Thayer, the secretary general controls the amount of subsidy (1969: 274, 285).

As mentioned above, faction bosses help their members to gather political funds. They do so in three ways. First, they themselves give funds directly to their members. Second, they arrange for their members to meet influential figures in the business world to ask for political contributions. Third, membership in the faction permit a member to tap the faction's other members for funds (Thayer, 1969, 30). For example, Muneco Suzuki,⁴⁰ a middle-ranking LDP lawmaker, was number one in political fund gathering in 1996; he accumulated 616,780,000 yen (Sasaki et al., 1999, 49). Then he donated between 1,000,000 and 8,500,000 yen to 25 lawmakers (Ibid., 195).⁴¹ In sum, party leaders have several ways to provide political funds for their members, thereby being able to influence the members.

III-C-7. Summary

We have seen that party leaders have several institutional powers to control the behavior of the party's rank-and-file. Their power to control career promotions would deter party members from openly and frequently going against the party leadership. And unless members belong to the party, they cannot have any real influence in the policymaking process. If interest groups know that they do not have the power, interest groups would belittle them and their political future would be dim. Moreover, going along with the party leadership is a surest way to secure money that comes from the

⁴⁰ Although he was not a faction boss, he was considered a "prince" of the largest Hashimoto faction until he was arrested in 2002 (*Nikkei*, 9 November 2002, p. 2).

⁴¹ Of course, these donations were investment for his future bid for premiership, although he was arrested in 2002.

party's local branch and from headquarters. Thus there is a great structural reason for party members to follow the party leadership.

Now it seems that the ruling party dominance model has overcome the first hurdle, that is, whether party leaders can control their members. If party leaders can control their members, they can monopolize power to enact laws in the Diet. Then if the ruling party can monopolize the lawmaking power in the Diet, opposition parties cannot pass their bills in it. No matter what opposition parties do in the Diet, the ruling party can simply ignore them and pass its bills. Moreover, other political actors such as the prime minister, bureaucrats, and interest groups should be mindful of the intent of the ruling party because they know that they cannot incorporate their policy preference into public laws if the ruling party decides to go against them. Thus, political actors would anticipate the reaction of the ruling party and behave accordingly.

III-D. Ruling Party Leaders and the Diet

Regarding the Japanese Diet (legislative body), there is an opinion that the Diet is a “rubber stamp”, meaning that politically significant matters are not happening there (Baerwald, 1974, 124). It has been often said that the discussion in the Diet is not substantial. Kōji Kakizawa, a LDP lawmaker, said, “the Diet is not a forum for debate among the different parties” (1983, 81). But there is a rumormor that “the Diet can do anything except making women out of men” (*Nikkei*, January 13, 2002, p. 2). Japan's Constitution says that the Diet is a “supreme organ”. It should be more than a rubber stamp. The legislature in Japan is divided into two houses. Because the Lower House is

granted more power than the Upper House is,⁴² the dissertation will focus on the Lower House.

Leaders of the ruling Liberal Democratic Party have several institutional powers to provide incentives for their members to follow their leadership. But how can party leaders make sure that party members debate and vote along the line of party policy position in the Diet? And how can party leaders cope with opposition parties in the Diet? Unless they can control what is happening in the Diet, they are not ruling Japan because the Diet is the place where laws are enacted. To control the behavior of the party's members, party leaders have a power to appoint, a power to schedule and a power to direct voting in the Diet. As for opposition parties, they compromise sometimes and ram through bills other times.

III-D-1. Control over Appointment to Diet Positions

How can LDP leaders control legislative activities in the Lower House? Cox and McCubbins elaborated how American party leaders use the appointment power to control legislative activities in congressional committees (1993, 163-187). Party leaders simply appoint a loyal member to chairs of important committees. Chairpersons of committees can control the committee agenda and delay the consideration of legislative items that are favored by members who deviate from the leadership. Similarly, I assume that Japan's ruling party leaders will use the appointment power to control legislative activities in the Diet.

⁴² According to Article 69 of Constitution, the Lower House can cast a no-confidence vote against a cabinet, but the Upper House cannot. When the two houses disagree on budget bills (Article 60), other bills (Article 59), the ratification of treaties (Article 61), the Lower House's decisions become those of the Diet.

There are two important positions for the management of the Lower House. One is the chairperson of the House Management Committee [*giin unei iinkai*]⁴³, and the other is the chairperson of the Diet Strategy [*kokkai taisaku iinchō*]. The House Management Committee is one of the committees in the Lower House, and is composed of the representatives from the parties that have a certain number of seats in the House. The Committee assists the President of the House in scheduling legislative activities in the House. Between 1955 and 1993, the Liberal Democratic Party has always occupied the positions of the President of the House and the chairpersonship of the Committee.

The Chairperson of the Diet Strategy is a political party's post, and assists the secretary general in planning the party's strategy in the Diet. Each political party appoints one member to the post. The secretary general and chair of the Diet Strategy are the persons who decide which bills should be passed and when (Satō and Matsuzaki, 1986, 134). Satō and Matsuzaki observed that factions that produced prime ministers have usually controlled one of the two positions, and that veteran politicians, who had served as ministers, have been appointed (Ibid.) to the posts. Veteran politicians, having worked in the party for a long time, have established a close relationship with party leaders. And veteran politicians have the incentive to support leaders because someday they will succeed them and become leaders themselves. By appointing veteran politicians, party leaders could influence legislative activities in the Diet.

III-D-2. Control over Diet Deliberation

According to Article 67, when the two houses disagree on the appointment of prime minister, the Lower House's decision become that of the Diet.

⁴³ Article 46 of the Diet Law stipulates the composition of the Committee. The number of the members is 25 since 1955. The matters at the Committee are decided on a majority rule (article 50).

If a Diet member can introduce a bill by oneself, the bill might become a law when it happens to attract a majority of votes in the Diet. And as students of American politics observed, legislators support each other to pass their own pet projects (Mayhew, 1974, 89-90). To prevent this possibility, the Diet Law [*Kokkai Hō*], Law No. 79 of 1947, was revised to require twenty legislators, out of 500 members of the Lower House, to introduce a bill to the Diet (article 56).⁴⁴

When the Diet Law was established in 1947, an individual legislator could introduce a bill by himself or herself (Ashibe, 1988, 226; Kiyomiya et al., 1987, 103-4). But a revision was made in 1955 to increase the number of legislators which was necessary to introduce bills into the Diet. Reasons for the revision were that legislator's bills, compared with government bills, were alleged to be selfish, nonsensical, lacking a view of national project, disgracing the Diet, and ignoring budget concerns (Ibid.). Critics had in mind gambling bills, such as dog races and boat races, and "*omiyage hoan*" [souvenir bills] that were aimed at bringing benefits only for the electorate in specific districts and interest groups. Observing a spread of these kinds of bills, people deplored that, "unruly legislator's bills only in Japan". It is not clear whether these assertions were correct,⁴⁵ but the effects of the revision were clear. The revision hurt the legislative

⁴⁴ If a proposal requires a budgetary measure, fifty members are necessary to submit the proposal to the Diet.

⁴⁵ These assertions are baseless. The dog race law and boat race law does not seem nonsensical in comparison with gambling laws around the world. Bills ignoring budget constraints continued to pass even after the revision, making the Japanese government the biggest borrower among seven advanced industrialized countries today. An accumulated government debt for Japan is 141.5 % of its GDP, while the number is 105.2 % for Italy that is the second biggest borrower among the seven (*Yomiuri Shinbun*, 2002, 57). And selfish legislator's bills are obviously not Japan-specific; they happen everywhere. Remember "Louis B. Mayer amendment". The amendment, Int. Rev. Code of 1954, § 1240, applied to only two persons in the United State, and saved Mr. Mayer, a vice president of motion-picture studio, about \$ 2 million in tax (Surrey, 1957, 1147). This kind of practice of special and selfish bills continued to 1991 when Representative Paul Kanjorski (D-Pa.) succeeded in inserting two paragraphs into a section of the Pentagon's budget to earmark \$ 20 million for "Earth Conservancy" in Hanovor Township, Pennsylvania.

capability of individual lawmakers and small political parties, but not that of a large party's leaders (Iwai, 1988, 92).

Even if a bill is introduced, it might not be subject to discussion and voting in the Diet. Which bill should be discussed and when are the matters that the President of the House and the House Management Committee decide. Article 92 of the Lower House Rule grants the Committee a power to decide matters regarding the sequence of legislative items [*giji*], the sequence of questioners, and the amount of question time. By influencing the House President and Committee, party leaders can simply table any bill that they do not like, if such a bill is introduced at all. When the Ministry of International Trade and Industry (MITI) and the Small and Medium Enterprise Agency (SMEA) introduced a bill for facilitating conversion to new enterprise⁴⁶ into the Diet in 1956, the LDP shelved it and demanded them to work on a bill for a domain coordination law, a bill for protecting small businesses from competitions by big businesses, which I will examine in Chapter IX (*Monthly Small and Medium Enterprise*, 1988, 13). The bill for the business-conversion law had to wait until the next Diet session.⁴⁷

Also, article 56-3 of the Diet Law allows each House to ask its committees to report the bill that they are currently deliberating to a plenary session of the House when

Earth Conservancy was located in Kanjorski's district and headed by his brother (Lowi and Ginsberg, 1998, 125).

⁴⁶ It was called the Law of Temporary Measures Coping with Business Conversion for Small and Medium Enterprises [*Chushō Kigyō Jigyō Tenkan Taisaku Rinji Sochi Hō*].

⁴⁷ The MITI introduced the bill for the business conversion law in the mid-March 1956 as a major piece of small business policies of the year. Under the law, the government was to designate industries that had no future due to a rising competition from developing countries and strict environmental regulation. The bill was to provide finance and tax benefits for entrepreneurs in such unpromising industries who decided to make a conversion to more promising industries. But LDP members in the Commerce and Industry Committee ridiculed the bill as "nakumogana no horitsu [law which nobody wants to be there]" (*Nikkei*, 11 May 1976, p. 3). Even small business entrepreneurs themselves did not support it because nobody wanted their business to be labeled "no future". Some observers speculated that the reason why the LDP shelved the bill for the business conversion law was that the MITI stubbornly opposed the domain coordination law (*Nikkei*, 25 May 1956, p. 4).

necessary. The provision allows the ruling party to avoid a committee deliberation, and thereby prevent opposition parties from filibustering the party's legislative schedule. This provision would increase the ability of the ruling party to control activities in the Diet, although it is up to leaders of the ruling party to resort to this provision.⁴⁸

III-D-3. Control over Voting

But the most effective rule that ruling party leaders have to control legislative activity is a party rule called "party voting order [*tōgi kōsoku*]"⁴⁹. By using this rule, leaders can order their members to vote in a certain way. A party voting order is approved at the Executive Council. Usually, when the ruling party decides to introduce a bill into the Diet, a party voting order is attached to the bill. And all LDP members support the bill when it comes to a vote. If members ignore the order and vote on their way, they could be punished at the party's Disciplinary Committee.

III-D-4. Dealing with Opposition Parties in the Diet

In a parliamentary regime, a ruling party establishes a government, and government bills receive approval of the party when they are introduced to the parliament. The ruling party commands a majority in the parliament, and can pass government bills against protests of opposition parties. If so, there is not a large role for opposition parties in a parliamentary regime. The government should be able to pass *almost all* bills that it introduces in such a regime. The British parliamentary regime provides empirical

⁴⁸ Chapter VI will show that the LDP did not resort to this provision when it tried to pass the bill of the Small and Medium Enterprise Organization Law in 1957.

evidence for this claim. The British government can always pass its bills at the level of 90 percent with the support of the ruling party. It is not rare that it can achieve a passage of 100 percent of government bills (Iwai, 1988, 123). But in Japan, where the same parliamentary regime is adopted, the number is 83.6 on the average (Ibid.). This needs an explanation. Since the Japanese government is stabler and stronger due to the LDP's long reign, government bills should pass more easily in Japan than in Britain, where governments alter periodically. This low success rate might mean that opposition parties, after all, have some kind of political power in the Diet. But how can opposition parties have political power in the House where the ruling party always holds a majority?

I have failed to come up with a good explanation for this. Mike Mochizuki argued that some institutional rules, such as a unanimous rule and a short Diet period,⁵⁰ allowed opposition parties to get involved in determining the agenda and timetable of legislative deliberation (Mochizuki, 1982, 430; Iwai, 1988, 129). These rules give opposition parties some leverage in the Diet and force the ruling party to compromise. But the ruling party often ignores opposition parties and rams through its favorite bills (Iwai, 1988, 144; below p. 178). Also, Sadafumi Kawatō argued that the unanimous rule is a myth. As the number of small parties increased after the early 1970s, there were often cases where the unanimous rule was abandoned and the majority rule was adopted instead (2002, 36). According to Kawatō, the unanimous rule seemed a norm during the late 1950s and 1960s. But this period was a period of the two big-party system. It is more realistic to interpret that the unanimous rule was a byproduct of a series of

⁴⁹ The party voting order is probably similar to "a three-line whip in Britain (the strongest form of instruction to follow the [party] line)", the defiance of which runs the risk of expulsion from the party (Kavanagh, 2000, 166).

surreptitious and strategic agreements between the two big parties, i.e., the LDP and the Japan Socialist Party.⁵¹ As the number of political parties increased, it was getting more difficult to have a series of agreements among them. In sum, there is no good explanation for the power and role of opposition parties in the Diet. This is one of the neglected subjects in the study of Japanese politics.⁵²

1993 marked the end of the sole reign of the Liberal Democratic Party, and since then Japanese governments have been coalition governments. Opposition parties started to join the LDP to form governments. The LDP could no longer monopolize the lawmaking power in the Diet, and had to solicit support from opposition parties. If so, the power and role of opposition parties should increase. Unfortunately, this dissertation cannot cover Japanese politics under coalition governments. The ruling *party* dominance model is not the same with a ruling *parties* dominance model, and therefore cannot explain the political power structure and the policymaking process under coalition governments. Monopolizing power to make laws in the Diet becomes more difficult under a coalition government than under a one-party government. A junior political party in a coalition government can easily quit the coalition and thereby prevent a senior political party from passing their favorite bills in the Diet.

⁵⁰ Bills introduced into the Diet will die when a current Diet session ends (Iwai, 1988, 127). And one year is divided into two or three sessions, whereby making an each session short. It is said that these Diet rules make the passage of bills difficult.

⁵¹ It was said that money was spent at fancy restaurants to forge agreements between the LDP and the JSP. This was criticized as "*ryōtei seiji* [politics at fancy restaurants]. The communists increased their seats in the Diet by exposing the practice in the late 1960s (Iwai, 1988, 137).

⁵² One reason for this neglect is that the Japanese, including me, looked down on opposition parties because they were permanent opposition parties. Between 1955 and 1993, the LDP always controlled governments; opposition parties never established their own government. And their policy platform, such as calling for the abolition of the military alliance with the United States during the Cold War era, neutrality without military preparedness, and limitation of private ownership, seemed to be unrealistic. After 1993, some minor opposition parties joined the LDP to form coalition governments. Although I tend to think the power and role of opposition parties will increase, it remains to be seen whether that will happen.

If ruling party leaders cannot monopolize the lawmaking power, the model would collapse. Monopolizing the lawmaking power is the starting point for the model. If leaders of the ruling *parties* can control their members, they can monopolize the lawmaking power. But even if they can monopolize the lawmaking power, the ruling party dominance model does not apply because a scheme in which coalition leaders control the behavior of their members would be different from the one the model has described.

Thus the ruling party dominance model cannot apply to Japanese politics after 1993. But this does not mean that this dissertation is meaningless. Explaining the past is one of goals of social science. And explaining the political power structure and the policymaking process under LDP governments is necessary to discerning the effect of coalition governments. Only comparison of coalition governments and LDP governments allows us to know what has changed. I hope that this dissertation will provide a benchmark for future study of coalition governments in Japan.

III-E. Ruling Party Leaders and Prime Minister

We have seen that leaders of the ruling Liberal Democratic Party can control party members and that they can also control legislative activities in the Diet. Next, let us look at the power relationship between party leaders and a prime minister. How can leaders make sure that the prime minister will work for them? But first of all, can party leaders control the prime minister at all? Party leaders cannot do so if the prime minister comes from the most powerful faction. Generally the strongest faction can make one or two weak factions its allies by giving them cabinet positions. Thus the prime minister

from the strongest faction can easily maintain a majority in the party. In that case, party leaders cannot control the prime minister.

But powerful factions can control a prime minister who comes from a weak faction. The party leaders of powerful factions can choose their loyalist as prime minister. It is said that all prime ministers after Fukuda⁵³ took the helm of state only after they got an approval from the dominant Tanaka and its successor Takeshita faction (Tsuchiya, 2000, 212). For example, in October 1991, the Takeshita faction decided not to support the Kaifu cabinet. Although the Takeshita faction considered electing its member Ichiro Ozawa as prime minister, Ozawa declined due to health concerns. Then the faction started to select Kaifu's successor. Ozawa called Kiichi Miyazawa, Michio Watanabe and Hiroshi Mitsuzuka⁵⁴, who were considered candidates for the next prime minister, in his office and interviewed them for their policies (Ibid., 223). After this interview, Miyazawa was selected as prime minister. Ozawa was then 49 years old, while Miyazawa was 62 years old. In a country where seniority is important, this interview event showed off the power of the Takeshita faction.

The strongest faction can appoint its loyalist as prime minister and dismiss the prime minister if the loyalist turns out to be defiant. The Japanese Constitution allows a group of twenty Lower House members to propose a dismissal of prime minister through a no-confidence vote.⁵⁵ Thus ruling party leaders, who can easily command a majority in

⁵³ Ōhira, Suzuki, Nakasone, Takeshita, Uno, Kaifu, and Miyazawa became prime minister after Fukuda.

⁵⁴ Miyazawa, Watanabe and Mitsuzuka were heads of their own factions.

⁵⁵ Articles 7 and 69 of Constitution, and Article 56, section 1, of the Diet Law. By the 131st Diet of 1992, thirty-six no-confidence motions were proposed mostly by opposition parties (Kikui, 1996, 80). The lack of political ethics, policy failure, violations of public pledge, and the lack of political leadership were the reasons generally provided in order to propose no-confidence motions. Most motions were rejected, but four motions were approved when a group of ruling party members joined opposition parties. The four motion were: (1) against Yoshida on 23 December 1948; (2) against Yoshida on 14 March 1953; (3)

the Diet, can dismiss the prime minister through a no-confidence vote. The very existence of constitutional rule to dismiss the prime minister might make the prime minister be aware of the wish of factional leaders.

But a no-confidence motion is a two-edged sword, because it might lead to a general election. After a no-confidence motion is passed, a prime minister can choose to resign or to dissolve the Diet. Ruling party leaders who sufficiently developed their personal electoral support might not be afraid of election, but their rank-and-file members surely are. Thus no-confidence motions may not be effective means for the party leaders to control the prime minister.

Another constitutional provision might provide ruling party leaders an opportunity to censure a prime minister who decides to go against them. Article 66, Section 3, of the Constitution makes a cabinet answerable to the Diet. This means that Diet members can examine decisions made by the prime minister and his ministers in the Diet deliberation. Although in principle ruling party members generally support the prime minister, they can heavily criticize him if they wish. Criticisms of a cabinet are publicized by the media and sometimes cause embarrassment and problems for the cabinet. It is reasonable to assume that ruling party leaders would use this constitutional provision when they think that the prime minister is going against its policy preferences.

Probably the most effective rule for factional bosses to control prime minister is, again, a party voting order [*tōgi kōsoku*]. If a prime minister tries to introduce into the Diet bills that party leaders do not like, they just disapprove the party voting order and

against Ōhira on 16 May 1980; and (4) against Miyazawa on 19 June 1993. Every time when the motion was passed, the Diet was dissolved.

have their members vote against the bills. Thus party leaders can restrict the legislative activity of a prime minister by threatening not to attach a party voting order to bills.⁵⁶

The ruling party dominance model's focus on institutional provisions increases the level of elaboration and prediction on the relationship between a prime minister and the ruling party. I believe this is an advancement from the statist, pluralist and corporatist models. The latter three models do not pay enough attention to relationships among politicians (i.e., intra-politician issue, see above p. 35), and therefore cannot tell what would happen if, for example, party leaders and the prime minister had different policy preferences. On the other hand, the ruling party dominance model would predict that the ruling party should overrule the prime minister when they disagree. As we will see, this is exactly what happened in the decision-making process of revising the Big Store Law in 1991, which is the subject of a case study in Chapter IX.

In sum, the constitutional provisions that allow the ruling party to select, dismiss, and censure a prime minister, and a party voting order would severely restrict the range of what the prime minister can do without regarding the intent of the ruling party. To be sure, the prime minister can do many things in the policymaking process. He can bring any kind of issue into the attention of the Diet, thereby setting the agenda for the nation. He can write and introduce a budget into the Diet. He can direct ministers on administrative issues. Nonetheless, unlike an American president, the prime minister does not have veto power. It is entirely up to the ruling party to decide whether his proposals are adopted or rejected in the Diet. Since the prime minister knows this power

⁵⁶ On 12 February 2002, the LDP's Executive Council took an issue of the individual financial burden for medical treatment in the government's medical insurance policy. Against the Koizumi cabinet who tried to make a decision in a top-down manner, Hiromu Nonaka, a leader of the largest Hashimoto faction, threatened that "if the government decides a direction for the issue first, the party voting order should not

relationship very well, the ruling party dominance model asserts that he would anticipate the reaction of the ruling party, and behave so as to please, or at least not antagonize, the ruling party.

III-F. Ruling Party Leaders and Bureaucrats

In the statist (attribute 5 of the statist model, above p. 18) and corporatist models (attribute 4 of the corporatist, above p. 26), bureaucrats are the most influential political actors. In the pluralist model (attribute 4 of the pluralist model, above p. 34), bureaucrats are granted a certain amount of autonomy from politicians and an equally significant role in the policymaking process as politicians. Contrary to these views, the ruling party dominance model asserts that the ruling party controls bureaucrats.

I have said that bureaucrats would consider how the ruling party would react when they are writing bills (above p. 38). For they know that their proposals have no chance to pass in the Diet if the ruling party opposes them. This is known as “anticipated reaction”.⁵⁷ Carl J. Friedrich articulated a concept of anticipated reaction (1937, 16). He said, “most influence operates by changing the conduct of people without any outward appearance of change...Why should this be so? Because the person or group which is being influenced anticipates the reaction of him or those who exercise the influence”.⁵⁸

be attached” (*Asahi*, 14 February 2002, p. 4). Nonaka tried to take over a leadership on the issue from Koizumi.

⁵⁷ Calvert et al wrote, “bureaucrats anticipate and pursue congressional interests because Congress possess positive rewards for service and negative sanctions for failure to serve” (1987, 498).

⁵⁸ He continued, “almost daily the policy-making officials deliberated upon what would be the reaction of the public to this, what the reaction of Parliament to that move. By correctly anticipating these reactions, the Foreign Office avoid getting embroiled and having to reverse its course; but was it therefore free from being influenced by Parliament and the public?” (1937, 17).

But how can leaders of the Liberal Democratic Party know that bureaucrats are indeed advancing their political agenda? There must be some kind of formal and informal rules that allow them to monitor bureaucrats. Major tools that allow them to monitor bureaucrats are prior consultation, control over promotion, and a power to reorganize bureaus.

III-F-1. Prior Consultation [*jizen shinsa*]

The most powerful rule is an informal one called “*jizen shinsa* [prior consultation]” (Iwai, 1988, 167). Prior consultation is to force bureaucrats to get an approval from LDP lawmakers whenever they make important political decisions. If bureaucrats proceed without getting approval from LDP lawmakers, their decisions might be reversed later.

Policy planning generally starts at the level of the section [ka] of a bureau [Murakami (Ichiro), 1989, 251, 253]. If a section chief and his or her boss, the bureau chief, want their idea to become a law, they have to go to a relevant division of the LDP’s Policy Affair Research Council (PARC), and explain the purpose of a bill and answer questions from LDP lawmakers (Ibid., 271). If the bill is controversial and a consensus is not forged in the division, they have to go to and explain at the PARC (Ibid., 275). And bureau chiefs have to attend the LDP’s Executive Council to explain the purpose of the bill just in case when the chair of the division of the PARC makes poor explanations to members of the Council [Murakami (Ichiro), 1989, 278]. Observing this routine, Ichiro

Murakami⁵⁹ asserts that the ruling party never admits any policy that does not take its intent into consideration (1989, 251).⁶⁰

III-F-2. Promotion

Regarding the career promotion of bureaucrats, there are two opinions. On the one hand, some scholars have argued that politicians rarely get involved in the decisions for the career promotion of bureaucrats. Jun Iio (1995, 142),⁶¹ Tomoka Kai (2000, 26)⁶² and Chalmers Johnson (1982, 52)⁶³ support this opinion. On the other hand, other scholars have argued that politicians control the promotion of bureaucrats. Pempel (1974, 653),⁶⁴ Koh (1989, 208),⁶⁵ and Kent Calder (1982, 10) support the second view. There is evidence for both sides. The Abe case⁶⁶ in 1988 and the Mikaku case⁶⁷ in 1982 support the former view, while the Imamura case⁶⁸ in 1975 and the 1989 transfer incident⁶⁹ at the

⁵⁹ Murakami is the first to consciously propose a prototype of the ruling party dominance model. He coined a phrase “*yotō tōsei riron* [theory of the ruling party control]”. Ramseyer and Rosenbluth (1993) beefed up the ruling party dominance model with the principal-agent theory.

⁶⁰ This practice of prior consultation is so effective as to deprive prime minister of a dominant role in policymaking process. Prime Minister Junichirō Koizumi tried to abolish the practice (*Nikkei*, 30 July 2002, p. 2). But he failed so far (*Nikkei*, 19 August 2002, p. 2).

⁶¹ Iio observed that it is exception that politicians get involved in the promotion of bureaucrats. He cited the Naitō case. In December 1993 when the minister of the MITI demanded a resignation from Naitō, the bureau chief for industrial policy, not only he but also other bureaucrats criticized, “it is unjust political intervention in administration” (1995, 142). However, Iio is wrong in adducing this case as an evidence of bureaucratic autonomy because Naitō resigned anyway (*Nikkei*, 1994, 38-51; *Mainichi Shimbun* 1994).

⁶² Kai argued that bureaucrats maintained autonomy from politicians’ pressure and made policy in a long-term perspective (2000, 56).

⁶³ Johnson said, “[t]he Japanese bureaucracy jealously guards the practice of making no political appointments below *the ministerial* level; the bureaucrats believe that this helps establish their claim to be above politics and to speak only for the national interest” (1982, 52: the italic is mine).

⁶⁴ Pempel said, “the LDP exercises strong personnel controls over promotions within the bureaucracy, making it effectively impossible for any bureaucrat unacceptable to the party to rise above the level of *bureau chief*” (1974, 653: the italic is mine).

⁶⁵ Byung Koh said, “bureaucrats in...top-level positions could lose their jobs should they antagonize key politicians in the ruling party” (1989, 208).

⁶⁶ The LDP and the Ministry of Education disagreed on the selection of a successor to vice minister Takaishi. Abe, who was supported by the ministry, became vice-minister (Kai, 2000, 69-71).

⁶⁷ Similar case to the Abe case (Kai, 2000, 69-71).

⁶⁸ It is said that the Culture and Education Division of the LDP overruled the Minister of Education to support Imamura for vice minister (Kai, 2000, 69-71).

Ministry of Education support the latter view (Kai, 2000, 69-71). But it seems that most scholars, except Johnson, agree that the cabinet is empowered to decide the promotion regarding the positions above *bureau chiefs* (Kai, 2000, 58; Iio, 1995, 142; Ramseyer and Rosenbluth, 1993, 110). Party leaders choose ministers, and ministers choose high-ranking bureaucrats.⁷⁰ If party leaders can influence the promotion of high-ranking bureaucrats, bureaucrats who want to climb up the career ladder would be mindful of their policy preferences.

III-F-3. Reorganization of Bureaus

The National Administrative Organization Law [*Kokka Gyōsei Soshiki Hō*], Law No. 120 of 1948, stipulates that the establishment and abolition of administrative organizations (article 3) and jurisdiction under administrative organizations (article 4) shall be determined by laws. This means that the Diet can establish or abolish administrative organizations, and expand or reduce their jurisdiction, by laws. Since the ruling party controls the Diet, it is up to the ruling party to reorganize the bureaucracy. If the law allows the ruling party to change bureaus, there is nothing to prevent the party to use the power to punish bureaus that produce bills that the party does not like.

Mikitaka Masuyama demonstrated that the passage rate of bills improved after bureaus were reorganized (2002, 57). A history of bureaucratic reorganization of the Ministry of Welfare shows that the passage rate and disapproval rate of bills were respectively 73.68 percent and 26.32 percent before bureaus were reorganized. But after reorganization the approval rate improved to 92.16 percent, and the disapproval rate

⁶⁹ Three bureaucrats with the status of bureau chief were transferred [*kōtetsu*], i.e., demoted (Kai, 2000, 71).

dropped to 7.84 percent. We can infer from this finding that the LDP approved more bills because reorganized bureaus produced bills that pleased the ruling party. If so, one possible implication was that the ruling party can punish recalcitrant bureaus that produce bills that it does not like.⁷¹ Bureaucrats, knowing that the ruling party can punish them, would become mindful of the ruling party's policy preferences.

III-F-4. Summary

I have listed the possible sources of bureaucratic power in Chapter II-A-2 (above pp. 11-3). They are (a) hidden information, (b) broad-based jurisdiction, (c) delegation, and (d) multiple principals. Katō adduces bureaucrats' ability to use expertise in a strategic manner as a source of their power (above p. 16). Corporatists seem to believe the stable consultative relationship as the source of bureaucratic power (above p. 19). But are all these factors potent enough to make bureaucrats rivaling politicians?

The ruling party dominance model clearly says "no". There is no convincing reason why ruling party politicians cannot be as knowledgeable as bureaucrats by relying on interest groups and investigating the working of government. It is entirely up to the ruling party to decide whether jurisdiction under bureaus and the delegation of policymaking to bureaucrats should be expanded, reduced or eliminated. And it is up to the ruling party whether bureaucrats' policy preferences are adopted or rejected. With

⁷⁰ *Kokka Kōmuin Hō* [National Public Servant Act], Law No. 120 of 1947, §55, grants the cabinet and ministers a power to appoint bureaucrats.

⁷¹ In March 1997, the LDP-dominant coalition government introduced two bills that deprived the Ministry of Finance of administrative jurisdiction over financial matters. Immediate causes for this reform were a series of scandals and mistakes that the ministry made. But Masaru Mabuchi observed that the real cause was the LDP's anger toward the ministry (1997, pp. 33-36). When the LDP fell from the power in 1993, the ministry treated LDP members in the same manner as they had treated opposition party's members. Also Vice Minister Jirō Saitō had an alliance with Ichiro Ozawa, a main protagonist of a non-LDP coalition

the institutional powers that I have elaborated, ruling party leaders can monitor the legislative work of bureaucrats.

III-G. Ruling Party Leaders and Interest Groups

The pluralist and corporatist models grant an important policymaking role for interest groups. Nobody is entirely lacking in political resources, according to pluralists (attribute 2 of the pluralist model, above p. 34). Corporatists assume that stable consultative relationships with bureaus are the source of political power for interest groups in the model (attribute 2 of the corporatist model, above p. 26). On the other hand, there is not much room for interest groups in the statist model. The attitude of interest groups toward bureaucrats is “responsive dependence” (above p. 15). Now, how are interest groups treated in the ruling party dominance model?

Politicians get money from interest groups. Since politicians depend on political funds from interest groups, can interest groups control politicians? Interest groups can withdraw money from politicians whom they do not like and pump money to those whom they like. Advocates of the “capture” theory (Elhauge, 1991, 717; Wiley, 1986, 723), arguing that public regulation is a method of subsidizing interest groups at the expense of the public, may be compatible with this view.

But let us not forget that it is the ruling party who can pass bills in the Diet. There is nothing, whether money, expertise, or institutional power, that allows interest groups to force politicians to accept their policy preference. It is politicians who decide whether their policy requests would be adopted or rejected. For example, it is up to leaders of the

government, who caused the demise of the LDP's rule. These events alienated LDP members, and made

ruling party whether tax break requests should be granted or rejected. Every year a more than 500-page file of tax requests is presented to the Liberal Democratic Party's Tax System Research Council. The Council quickly disposes each request by attaching signs "○", meaning approved, and "×", meaning rejected. The decisions are entirely up to the top few members, called the "inner" of the council (Kishi, 1998, 85).⁷²

As sole holders of legislative power, politicians can write laws to protect a particular industry. For example, Fred McChesney asks, "[a]s the amount of money tobacco firms are paying politicians (mostly GOP legislators) in 1997 mounts into the millions of dollars...does anybody really think that tobacco is paying for special favors, as opposed just to saving their very existence?" (McChesney, 1997, 213-4) If politicians can write laws to favor a particular group, it should be easy for them to use their lawmaking power to extract financial contribution. For example, they can write a tax law that favors a particular group for only certain period time, say, two years. If the group wants to continue enjoying legislative favor, it has to pay the same price or more after the two years. If the group does not pay, politicians can write another tax law that favors another group. And there is no lack of interest groups who are willing to make deals with politicians. Some American scholars argued that this is happening in America. They ask, doesn't an "accelerating rate and decreasing durability of tax reform" mean "increases in the number of private interests willing to bargain for legislative favors" (Doernberg and McChesney, 1987, 914; McChesney 1997a and 1997b)?⁷³ If this happens in America, it

them less eager to protect the ministry from the public outcry.

⁷² *Asahi Shimbun* called these decisions as "the source of the ruling party's power" (*Asahi*, 14 December 2002, p. 8).

⁷³ They observed that "the rate of tax reform has increased during the 1970s and 1980s, culminating in the much-ballyhooed Tax Reform Act of 1986" (1987, 913). McChesney also said, "[t]o the extent that new

should happen in Japan, too, because the ruling party can monopolize the lawmaking power. It would be a grave mistake to image that interest groups control politicians. Thus, in the ruling party dominance model interest groups are far from playing a dominant role in policymaking.

However, this is not to suggest that the role of interest groups is as small in the model as it is in the statist model. Interest groups do play an active role in the policymaking process by bringing certain problems into the public attention, by providing money and information for politicians and bureaucrats, by sending their members to government deliberation councils, and by mobilizing for the passage of bills. Although I do not think that the role of interest groups is as important as they are in the pluralist and corporatist models, they would play a larger role in my model than in the statist model.

I have elaborated power relationships between ruling party leaders and other political groups. The Japanese constitution, the ruling party's rules, public laws and prior consultation are major tools for the party to control and influence its rank-and-file, opposition parties, prime minister, bureaucrats and interest groups. I hope this chapter has helped readers to grasp what my ruling party dominance model is.

private interests are expected to emerge tomorrow with cash in hand, politicians will want to preserve their legislative flexibility by making only shorter-term contracts today" (1997, 106).

IV. Hypotheses on the Policy Process

In Chapter II, I reviewed the statist, corporatist and pluralist models of Japanese politics. In the previous chapter, I elaborated my understanding of Japanese politics by presenting the ruling party dominance model. By now, readers are informed of the four models, that is, the statist, corporatist, pluralist and ruling party dominance models, and are now asked to assess their validity. To test the validity of models, I derive hypotheses on the policymaking role of each political actor from the four models, and will examine the hypotheses with four case studies that I will present in Chapters VII, VIII, IX and X. In this chapter, I would like to state the hypotheses. The following questions should help me to generate hypotheses.

1. What kind of role does the ruling Liberal Democratic Party play in the policymaking process?
2. Whose policy preferences are the most clearly reflected in the Diet?
3. What specific function does the Diet play in the policymaking process?
4. Can the prime minister insist on his policy preference against the ruling party when they had opposite policy preferences?
5. What specific function does the prime minister play in the policymaking process?
6. Can bureaucrats advance their own policy preferences against the ruling party?
7. Whom do interest groups lobby?

Since the statist, corporatist, pluralist and ruling party dominance models understand the political power structure differently, they should generate different answers to the above questions. I will put myself into the shoes of proponents of the existing models and

answer the questions in terms of their models as faithfully as possible. I will also answer the questions in terms of my model, and elaborate my reasoning. I do not claim that my hypotheses are right and are the only hypotheses that anybody can derive from the four models. Drawing hypotheses from models is a highly subjective process. I have no doubt that readers would and could draw different hypotheses from the four models. But the following is my best attempt to draw hypotheses from the four models.

IV-A. Hypotheses on the Liberal Democratic Party

What is the role of the ruling Liberal Democratic Party in the small business policymaking process? Statists attribute the most influential role to bureaucrats, and assert that politicians act as a “safety valve” for bureaucrats, meaning that politicians insulate bureaucrats from the influence of interest groups so that bureaucrats can carry out main tasks of the developmental state (above p. 14). Thus the statist answer to this question is that politicians act as a guardsman for bureaucrats in small business policymaking process.

Corporatists attribute a prominent role to stable consultative relationship between bureaus and interest groups, but do not elaborate the role of the ruling party specifically. Regarding political parties, Pempel and Tsunekawa asserted that “the political party system did serve to mitigate certain of the seemingly total control [i.e., bureaucratic control]” (above p. 25). Their assertion might be used to generate a hypothesis on the role of the ruling party. I interpret their assertion to mean that political parties intermediate between bureaus and interest groups. And I replace the terms “political parties” with “the ruling party”. Then, the corporatist answer to the question is that the ruling party intermediates between bureaus and interest groups in small business

policymaking process. Pluralists also made similar assertions (above p. 32). Thus the pluralist answer to the question is the same as the corporatist one.

The ruling party dominance model asserts that leaders of the ruling party can control its rank-and-file through party rules, thereby monopolizing the lawmaking power in the Diet. It is solely up to the ruling party whether a particular bill concerning small business policy should be passed or killed in the Diet. If so, other political actors cannot rival the ruling party. Thus the Liberal Democratic Party is paramount in the small business policymaking process. Table 4-1 summarizes the hypotheses on the Liberal Democratic Party.

Table 4-1: Hypotheses on the Role of the Liberal Democratic Party in Policymaking

Statism	"Safety valve" for bureaucrats.
Corporatism	To intermediate between bureaus and interest groups.
Pluralism	To intermediate between bureaucrats and interest groups.
RPD Model	Paramount.

IV-B. Hypotheses on the Diet

Two questions will be asked about the role of the Diet in the policymaking process. The first question is whose policy preferences are the most clearly reflected in the final outcome of legislative activities in the Diet. The second question is what specific function the Diet play in the policymaking process.

IV-B-1. Legislative Outcome in the Diet

Whose policy preferences are the most clearly reflected in the final outcome of legislative activities in the Diet? The statist model would answer that the outcome of legislative activities in the Diet would reflect policy preferences of bureaucrats.

According to Johnson, “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 innovation in the system” (above p. 14). He goes on to say that “the Japanese Diet is not a ‘working parliament’” (above pp. 14-5), and the Diet only ratifies the work of the bureaucracy (above p. 16).

Corporatists Pempel and Tsunekawa argued, “the role of parliament...did serve to mitigate certain of the seemingly total control [i.e., bureaucratic control]” (above p. 25). This quotation can be interpreted to mean that government bills are modified in the Diet. When government bills are to be modified in the Diet, opposition parties might succeed in inserting their policy preferences into the government bills. If so, the Diet might reflect opposition parties’ preferences. Also stable consultative relationship between bureaus and peak organizations allows interest groups and bureaucrats to insert their policy preferences into government bills before the bills are introduced into the Diet. In sum, the final outcome of legislative activity in the Diet should reflect policy preferences of all major political actors in the corporatist model.

The pluralist model assumes that there is no center of political influence (attribute 1 of the pluralist model, above p. 34). Bureaucrats are granted autonomy (attribute 4 of the pluralist model, above p. 34), and play an equally important role in the policymaking process as politicians do (above pp. 32). Opposition parties are also granted an important role (above pp. 33). Thus a pluralist answer to the question would be that policy preferences of all the major political actors are reflected in the legislative outcome of the Diet.

According to the ruling party dominance model, the ruling party can control the voting behavior of its rank-and-file through party voting orders (above p. 39). With the control of party members, leaders can secure a majority in the Diet and thereby pass bills that they advocate in the Diet. There is no need for the ruling party to compromise with opposition parties. As we have seen, the ruling party can control the schedule of legislative activities in the Diet by article 92 of the Lower House Rule (above p. 52), and article 56-3 of the Diet Law allows the ruling party to skip a committee deliberation in order to avoid opposition parties' filibusters. There is no chance for opposition parties to reflect their policy preference in the legislative outcome of the Diet. Moreover, it is up to the ruling party whether particular policy demands of interest groups and bureaucrats' proposals should be advocated or rejected. In sum, the ruling party dominance model would answer that the Diet would reflect *only* policy preferences of the ruling party.

Table 4-2 summarizes the above discussion.

Table 4-2: Hypotheses on Legislative Outcomes in the Diet

	Hypotheses on Legislative Outcomes in the Diet
Statism	The Diet would reflect bureaucrats' policy preferences.
Corporatism	(1) The Diet would reflect policy preferences of all the major political actors more or less.
Pluralism	(1) The Diet would reflect policy preferences of all the major political actors more or less.
RPD Model	(1) The Diet would reflect only the LDP's policy preferences.

IV-B-2. Specific Functions of the Diet

The next question about the role of the Diet in the small business policymaking process is concerned with more specific functions in the process. What specific function does the Diet play in the policymaking process? The Diet can have many functions. For example, it can direct a cabinet to work on a certain public issue, investigate certain

public issues, deliberate bills, modify bills, hold public hearings, and vote on bills. But nothing in the Constitution requires the Diet to engage in any function, except perhaps clearing budget bills. If so, on which function should the Diet concentrate its attention in the policymaking process? Does the Diet specialize in a particular function at all, or engage in a variety of functions depending on the situation?

The ruling party dominance model would answer that the Diet would concentrate on directing a cabinet to work on a particular public issue. The ruling party can monopolize the lawmaking power, and every other political actor knows this very well. Accordingly, bureaucrats and the prime minister would propose and write public policies that the ruling party would accept. Through prior consultation, all elements in bills that might be objectionable to the ruling party would be eliminated before any bill is introduced in the Diet. When a bill is introduced, the ruling party is ready to pass it. There is no reason for the ruling party to engage in substantive functions, such as investigating certain public issues, deliberating bills, modifying bills, and holding public hearings in the Diet. And there is no need for the ruling party to compromise with opposition parties. The ruling party can ram through the bill by resorting the Diet rules (above p. 52-3), if necessary.

But the Diet might engage in a function of directing a cabinet to work on a certain public issue. The existence of a cabinet rests on the confidence of the Diet in a parliamentary regime, and the cabinet knows that any cabinet proposal would be rejected in the Diet unless it is acceptable for the ruling party. Under this kind of institutional arrangement, the ruling party can expect that the cabinet would introduce bills that the party can approve. But the cabinet might not pay attention to a certain public issue in

which the ruling party has interest. After all, the cabinet and the ruling party are different organizations, and the intent of the ruling party might not be clear to the cabinet unless it is made explicit. When the ruling party wants to show its intent to the cabinet, there is some utility in the Diet function of directing the cabinet to work on a certain public issue.⁷⁴ In sum, all Diet functions, except voting on bills and directing a cabinet, would collapse in the ruling party dominance model. And the function of voting on bills is so obvious that I would like to decline to make it a hypothesis. Thus, only the function of directing a cabinet stands as a hypothesis on a specific function of the Diet.

Statists argued that bureaucrats make the most important decisions, and that politicians only ratify their decisions in the Diet. Based on these views, statist would answer that the Diet would have only one function of approving bills. Since I have decided not to make this function a hypothesis, the Diet has no function according to the statist model. On the other hand, according to the corporatist and pluralist models, the Diet is likely to engage in many functions. In the both models, politicians play an intermediating role in policymaking process to forge compromise among bureaucrats and interest groups in the Diet. In the process, the Diet might engage in the functions of holding public hearings and deliberating issues in order to find out different opinions. And it might engage in the function of modifying bills to reflect compromises. Thus, according to the corporatist and pluralist model, the Diet would not specialize in particular functions; it would engage in a variety of functions depending on public issues. Table 4-3 summarizes the above discussion on the hypotheses on the role of the Diet in the policymaking process.

⁷⁴ Especially, this might be true when the cabinet and the ruling party have a tense relationship.

Table 4-3: Hypotheses on Specific Functions of the Diet in Policymaking

	Hypotheses on Specific Functions of the Diet
Statism	There is no specific function for the Diet, except approving.
Corporatism	The Diet would not specialize in a particular function.
Pluralism	The Diet would not specialize in a particular function.
RPD Model	The Diet would specialize in directing a cabinet to work on a certain public issue.

IV-C. Hypotheses on Prime Minister

Can the prime minister insist on his policy preference against the ruling party when they have opposite policy preferences? What specific function does the prime minister play in the policymaking process? These are the questions to be considered in this section.

IV-C-1. Power Relationship between Prime Minister versus the Ruling Party

Can a prime minister insist on his policy preference against the ruling party when they have opposite policy preferences? The ruling party dominance model focuses on the constitutional provisions that allow the ruling party to select, dismiss and censure the prime minister (above p. 57). Besides, unlike an American president, the prime minister does not have a veto power to reject bills that the Diet has passed. In such an institutional environment, the prime minister cannot overrule the ruling party in the policymaking process when they have opposite policy preferences. Unless the prime minister succeeds in marshaling a majority in the ruling party, he has to support the policy preference of the ruling party.

According to the statist model, most attention goes to bureaucrats, and there is not much discussion about the relationship between the ruling party and prime minister. Similarly, I have failed to determine the corporatist and pluralist conclusion of the power

relationship between the prime minister and the ruling party. All types of politicians are bracketed in one category, i.e., politician, in these models (above p. 35). Thus I fail to answer the first question in terms of the statist, corporatist and pluralist models. Table 4-4 summarizes the above hypotheses.

Table 4-4: Hypotheses on the Power Relationship between Prime Minister and the Ruling Party

Statism	No hypothesis on the power relationship between prime minister and the ruling party.
Corporatism	No hypothesis on the power relationship between prime minister and the ruling party.
Pluralism	No hypothesis on the power relationship between prime minister and the ruling party.
RPD Model	Prime Minister cannot insist on his policy preference when the ruling party and he have opposite policy preferences.

IV-C-2. Specific Functions of the Prime Minister

What specific function does a prime minister play in the policymaking process?

The prime minister can engage in many functions in the process. He can bring a certain public issue to the Diet's attention, answer questions of Diet members, propose an annual budget and other bills into the Diet, hold cabinet meetings, and direct ministers on political and administrative issues. Except for a few functions, such as introducing an annual budget, nothing in the Constitution requires the prime minister to engage in specific functions in the lawmaking process. If so, what is the prime minister likely to do in the process?

According to the ruling party dominance model, contentious issues in a particular bill are resolved between the ruling party and bureaucrats through prior consultation. When the bill is introduced into the Diet, the prime minister and the ruling party are on the same side to pass the bill. And they can control the behavior of their members and

have the Diet rules to control legislative activities in the Diet. If so, there is no large role for the prime minister in the formulation of bills and in Diet deliberation.

But, the prime minister might specialize in two functions of initiating a policymaking process and forging compromise among ruling party politicians, according to the ruling party dominance model. Sitting at the apex of the nation's bureaucratic apparatus, he should be better situated to find out urgent needs of the nation and to initiate a policymaking process to cope with such needs. Since the ruling party can reject his initiatives that it does not like, the party would give him great latitude to initiate policymaking processes. The party knows that he would use such a wide discretion to advance the party's reputation.

The prime minister should also coordinate conflicting political demands among ruling party members, according to the ruling party dominance model. The policy preference of a particular party member could conflict with the general interest of the party. For example, lawmakers who specialize in agriculture would try to advance agricultural interests even though doing so hurts the public interests of the whole nation, i.e., high prices for food. In terms of the party as a whole, this kind of selfish behavior destroys the party's reputation as a responsible party. Thus the prime minister, along with party leaders, has to step in to discourage the selfish political demands of rank-and-file members in order to maintain the party's integrity. Also, conflicts could arise when issues implicate multiple ministries. In such cases, the prime minister should be called upon to resolve the conflicts. In sum, the ruling party dominance model predicts that the prime minister should specialize in the functions of initiating the policymaking process and coordinating policy demands among ruling party politicians.

The statist model attributes a major policymaking role to bureaucrats, and relegates the role of politicians in the process to ratifying what bureaucrats have done. There is not much discussion about a specific role of prime minister in the process. Thus I have failed to answer the question in terms of the statist model.

On the other hand, the corporatist and pluralist models recognize a larger role for politicians than the statist model does. Politicians are intermediating between bureaucrats and interest groups. Although the two models do not consciously elaborate a specific role for the prime minister, it is reasonable to assume the role of the prime minister is larger, or at least the same, as the role of politicians. If so, the prime minister should engage in a variety of functions. The prime minister would bring a certain issue into the attention of the public and the Diet, formulate bills, forge compromises among political actors, and engage in other functions. Thus the corporatist and pluralist answer to the question would be that the prime minister should engage in multiple functions and not specialize in particular functions. Table 4-5 summarizes the above discussion on the role of prime minister in the process.

Table 4-5: Hypotheses on the Role of Prime Minister in Policymaking

Statism	No role for prime minister.
Corporatism	Prime Minister would engage in many functions.
Pluralism	Prime Minister would engage in many functions.
RPD Model	(1) Prime Minister would specialize in initiating policymaking process. (2) PM also would coordinate political demands among LDP lawmakers.

IV-D. Hypotheses on Bureaucrats

Can bureaucrats advance their own policy preferences against the ruling party when they have opposite policy preferences? Statists should answer affirmatively.

According to Johnson, bureaucrats come up with most ideas for economic policies and make most major decisions, and politicians protect their decisions from the pressure of societal forces (above p. 14). Now, does this mean that bureaucrats can advance their own policy preferences against the ruling party? I could not find any statist answering this question. But if bureaucrats cannot persuade the ruling party to give up its policy preferences and instead to adopt their recommendations, what is so special about the statist model? If bureaucrats were just as influential as politicians are, what is the difference between the statist and the pluralist models? The statist answer to the question should be that bureaucrats could advance their own policy preferences against the ruling party by persuading the party to adopt their policy positions.

How would corporatists answer the question? I have browsed the corporatist literature for the answer, but have failed to find one. Similarly, the pluralist model does not allow me to answer the question. In the pluralist model, all major political players should be able to reflect their own policy preferences in bills more or less. And bureaucrats can maintain autonomy and be as influential as politicians (above p. 32). Then, what can this model predict when bureaucrats and the ruling party collide on a certain issue? It provides little guidance.

On the other hand, the ruling party dominance model would answer the question negatively. According to the model, there is no chance for bureaucrats to advance their policy preference when the ruling party opposes them. Since the party monopolizes the lawmaking power in the Diet, the party can reject bureaucrats' policy preferences. If bureaucrats write bills that party leaders do not like, their career promotion would not go beyond the bureau-chief level (above pp. 62-3). And if they continue to do so, the LDP

would abolish or reorganize their bureau. Table 4-6 summarizes the above discussion of the role of bureaucrats in the policymaking process

Table 4-6: Hypotheses on the Role of Bureaucrats in Policymaking

Statism	Bureaucrats can advance their policy preferences against the ruling party.
Corporatism	No hypothesis on the power relationship between bureaucrats and the ruling party.
Pluralism	No hypothesis on the power relationship between bureaucrats and the ruling party.
RPD Model	Bureaucrats cannot advance their policy preferences against the ruling party.

IV-E. Hypotheses on Interest Groups

To whom do interest groups target their lobbying activity? This question has generated some hypotheses in studies of Japanese politics. Robert Uriu (1996, 25-28) said that they would first go to bureaucrats and then go to politicians if they did not like what bureaucrats had done to them. Yutaka Kosai said that declining industries went to politicians and flourishing industries went to bureaucrats (1987: 576, 581). Muramatsu and Krauss said that more institutionalized interest groups went to bureaucrats while less institutionalized ones went to politicians (1987, 539). What can the four models in this dissertation say about this question?

According to the statist model, bureaucrats are immune from the pressure of both politicians and interest groups. This might suggest that there is no point for interest groups to lobby bureaucrats. Also there is no point for them to lobby politicians, either. Even if interest groups lobby politicians, bureaucrats would be immune from politicians. But bureaucratic autonomy does not necessarily make lobbying meaningless. It means only that politicians and interest groups could not dictate bureaucrats' decisions. Bureaucrats might encourage lobbying because it might provide them useful information.

If lobbying is allowed in the statist model, whom should interest groups lobby? Although Johnson asserted that interest groups were dependent on bureaucrats (above p. 15), does this suggest any direction for lobbying? I have failed to answer the question in terms of the statist model.

I have also failed to answer the question in terms of the pluralist model. In the pluralist model, interest groups are expected to lobby actively. But there is no clue about the direction of lobbying. On the other hand, the corporatist model allows me to answer the question easily. According to the corporatist model, interest groups should lobby bureaucratic through stable consultative relationships.

According to the ruling party dominance model, the ruling party monopolizes the lawmaking power, and no bill can pass there unless the ruling party approves it. If so, when interest groups want to enact a law, they have to convince the ruling party. It would be pointless for them to convince bureaucrats since it is politicians who can pass bills in the Diet. Thus interest groups should go to the ruling party when they want to establish a law. Table 4-7 summarizes the above discussion of the direction of interest groups' lobbying.

Table 4-7: Hypotheses on the Direction of Interest Groups' Lobbying

Statism	No hypothesis on the direction of lobbying.
Corporatism	Interest groups would lobby bureaus.
Pluralism	No hypothesis on the direction of lobbying.
RCI	Interest groups would lobby the ruling party.

IV-F. Hypothesis on Power Shift in Policymaking

As mentioned in the Introduction (above p. 4), the dissertation will test the popular opinion that policymaking power has shifted from bureaucrats to politicians.

Some observers of Japanese politics assert that the center of power in policymaking has shifted from bureaucrats to politicians. As we have seen, Muramatsu and Krauss observed “diminishing control of the bureaucracy over social interest groups” (above p. 32) and an “increasing policy expertise of politicians” (Ibid.). T. J. Pempel, too, observed that “[i]t is fair to say... that there is general agreement that the recent trends in relative influence show that members of the Liberal Democratic Party are taking an increased interest in, and are exerting greater overall influence over, an ever larger range of policy issues” (1992, 24). According to Kōji Kakizawa, this alleged shift in policymaking power is due to “the prolonged period of LDP power” (1983, 89).

However, this assertion should be doubted. First, many high-ranking politicians in the early years of the postwar period were former bureaucrats. 24 percent of the Lower House members and 41 percent of those of the Upper House were former bureaucrats (Kakizawa, 1983, 80). And they generally held important party and government positions. Eight of the fourteen postwar prime ministers were former bureaucrats (Ibid., 81). If so, politicians had to be as much policy-wise as bureaucrats were.

Second, bureaucrats’ knowledge about a given industry is limited. They are after all bureaucrats; they are not businesspeople. George McRobie et al. asserted that “[m]inistries cannot be specialists in all branches and problems of industry” (Political and Economic Planning, 1957, 67). Richard Samuels agreed with McRobie. He said, “the well-fabled Japanese bureaucracy is itself often dependent...upon the industry associations and firms with which it works so closely” (1983, 499).⁷⁵ Samuels found the

⁷⁵ Also Robert Uriu said, “bureaucrats depend on industry actors to provide necessary information and to cooperate in the implementation of policies” (1996, 26).

evidence of bureaucrats' dependence on trade associations in the areas of aluminum, robotics, and energy. If bureaucrats can depend on trade associations, why not politicians? Politicians could be as knowledgeable as bureaucrats are by depending on the private sector.

Third, all the elements of the political power structure, which enabled the ruling party to control the policymaking process, remained the same between 1955 and 1993. They are the constitutional provisions that grant the Diet the sole power to enact laws, the ruling party's institutions that allowed its leaders to control its rank-and-file, and prior consultation that allowed the ruling party to eliminate from the text of bills any legal provisions that the party found objectionable. Under this kind of political power structure, there is no chance for bureaucrats to rule the policymaking process. If they did not have the power to rule the policymaking process, there cannot be any shift in policymaking power from bureaucrats to politicians. Thus my hypothesis is that there was no power shift in policymaking from bureaucrats to politicians between 1955 and 1993.

In this chapter, I have derived hypotheses on policymaking role for each political actor from the statist, corporatist, pluralist and ruling party dominance models. As I mentioned at the beginning of the chapter, I am aware that readers might disagree with my reasoning and draw different hypotheses. But I would like to test my hypotheses and the validity of the four models with the four case studies that I will present in the ensuing chapters.

V. The State of Small Businesses and Small Business Policy

I elaborated the political power structure under the rule of the ruling Liberal Democratic Party in Chapter III. And I derived hypotheses on policymaking role for each political actor from the statist, corporatist, pluralist and ruling party dominance models in the previous chapter. Before I examine the hypotheses, however, I believe that readers should be informed of the state of small businesses in Japan. First, basic facts about small businesses will be provided. Then I will elaborate organizations that are relevant for small business policymaking. And I will present a catalog of small business policy in Appendix.

V-A. The State of Small Businesses

V-A-1. Popular Images of Small Businesses

How do people perceive small businesses? In America, some people see small business as a paragon of individualism. For them, small businesses represent the Jeffersonian yeomanry of “small dealers and worthy men” (Peritz, 1996, 58; Bean, 1996, 2). In Japan, some people see small businesses as good for democracy (Kiyonari, 1997, 218). Masao Maruyama opined that “small employers [are] the noncommissioned officers of civil society” (quoted by Calder, 1988, 312).

But a dominant view of small businesses in Japan is that small businesses are a “categorically poor presence [*ichiritsude kawai sona sonzai*]”.⁷⁶ According to this negative view, small businesses are economically inefficient, socially premodern and

technologically backward. Wages are low, and working conditions are rough-and-tumble.⁷⁷ Some have even said that small businesses have “a miserably atrophied existence before the development of the big business establishment” (Mabuchi, 1981, 105).

Nonetheless, more positive views have been presented since the mid-1960s.⁷⁸ According to these views, there have emerged a large number of small businesses that achieved high productivity and were able to pay high salaries. The relationship of small businesses with big firms has gradually transformed from one of subordination to one of horizontal network (Kiyonari, 1997, 90-95).

Sometimes, a particular image of small businesses is presented and is used by political actors to advance and justify their policy positions. In the legislative process of establishing the Small and Medium Enterprise Basic Law of 1963 (below Chapter VIII), proponents of the bill presented a depressed state of small businesses, and asserted that the goal of the Basic Law should eradicate disadvantages facing small businesses.

V-A-2. Definition of Small Business

Although the definition of a small and medium enterprise [*kigyō*] has changed over the years, as of 1997 a small and medium enterprise is defined as follows (Kiyonari,

⁷⁶ SMEA, 2000b, 3.

⁷⁷ These views were presented by proponents of so-called “dual structure theory [*nijyu kōzō ron*]” of Japan’s economy. They maintained that the Japanese economy was divided into an efficient sector of big businesses and an inefficient sector of small businesses. And they went on to argue that the prosperity of big businesses was made possible by the exploitation of small businesses. A Marxist economist Hiromi Arisawa of the University of Tokyo proposed the theory in 1957. The government embraced his theory in the 1957 *Economic White Paper* [*Keizai Hakushō*]. That was why this theory was so influential. See Kiyonari, 1997, 67-79.

⁷⁸ Kazuo Takenaka and Yoshihirō Takasu argued that a high rate of economic growth, a rising level of wage, a rising level of consumer prices, and a rising productivity were overcoming the dual structure of the Japanese economy (Kiyonari, 1997, 90).

1997, 11), (a) for a manufacturing enterprise, less than 300 employees or less than 100 million yen⁷⁹ in capital funds, (b) for a wholesale enterprise, less than 100 employees or less than 30 million yen⁸⁰ in capital funds, and (c) for a retail and service enterprise, less than 50 employees or less than 10 million yen⁸¹ in capital funds.

Among small businesses, those who are extremely small are called “very small enterprise” [*shōkibo kigyō*]. The definitions for them are as follows: (a) for a manufacturing enterprise, less than 20 employees; and (b) or a commerce and services enterprise, less than five employees.

V-A-3. Basic Facts about Small Businesses

There are roughly five million enterprises in Japan as of 2000. 99.4 percent of them are small businesses. And the most of small businesses are very small. Very small businesses accounted for 87.9 percent of all enterprises. 60,186,881 people⁸² are working in 6,350,146 workplaces in Japan in 2001. The size of workplaces is as follows.

Table 5-1: Size of Workplaces and Number of Workers of Small Businesses

Size of workplace	# of workplace	%	Number of workers	%
1-4	3,867,537	60.9	8,422,468	14.0
5-9	1,214,141	19.1	7,896,365	13.1
10-19	678,174	10.7	9,107,504	15.1
20-99	507,122	8.0	18,968,415	31.5
100-299	50,417	0.8	7,973,693	13.3
Over 300	11,902	0.2	7,818,436	13.0
Total	6,350,146	100.0	60,186,881	100.0

[Source: the Ministry of General Affairs [*sōmushō*]:
www.stat.go.jp/data/jigyousokuhou/-04.htm (valid as of December 2002)]

⁷⁹ \$ 769,230.76 in an exchange rate of one dollar equaling 130 yen.

⁸⁰ \$ 230,769.23 in an exchange rate of one dollar equaling 130 yen.

⁸¹ \$ 76,923.07 in an exchange rate of one dollar equaling 130 yen.

⁸² In statistics, they are called *jyūgyōsha* [workers]. *Jyūgyōsha* include employees, paid directors [*yūkyū yakuin*], individual entrepreneurs [*kojin gyōsha*], part-time employees, unpaid family members, etc.

Workplaces with less than 20 persons account for about 90 percent of the total workplaces and about 40 percent of the total workers in Japan. The rates⁸³ for firm births [*kaigyō ritsu*] and firm deaths [*haigyō ritsu*] have evolved as follows.

Table 5-2: Firm Birth and Firm Death Rates of Small Businesses

Years	Firm Birth Rate (%)	Firm Death Rate (%)
1966-69	6.5	3.2
1969-72	7.0	3.8
1972-75	6.1	4.1
1975-78	6.2	3.4
1978-81	6.1	3.8
1981-86	4.7	4.0
1986-89	4.2	3.6
1989-91	4.1	4.7
1991-94	4.6	4.7
1994-96	3.7	3.8

[Source: SMEA, 2000b, 5]

A secular trend for firm births has been declining. After 1989, the firm death rate surpassed the firm birth rate.

The number of enterprises in 1999 by industry looks as follows. The number of small businesses includes the numbers of very small enterprises.

Table 5-3: The Number of Small Businesses by Industries

Industrial Categories	Small		Big	Total
		(Very small)		
Construction	555,372	(526,027)	475	555,847
Manufacturing	605,212	(537,430)	2,414	607,626
Wholesale	293,903	(203,261)	2,259	296,162
Retail	1,084,209	(945,211)	3,784	1,087,993
Restaurants	714,754	(639,231)	642	715,396
Services	1,181,827	(1,001,806)	3,881	1,185,706

[Source: SMEA, 2002]

⁸³ The way to acquire the opening and closing rates is a complicated one. For those who are seriously concerned with the method, go to <http://www.chusho.meti.go.jp/hakusyo/h14/index.html> (valid as of 27 January 2003). Basically, the figures are acquired by dividing new enterprises and closed enterprise with the total enterprises.

Small businesses contribute to the national gross production of 1999 as follows.

Table 5-4: Contributions of Small Businesses to the National Economy in 1999

Category	All businesses	Small business
Manufacturing	346 trillion yen	130 trillion yen (38 %)
Wholesale	374 trillion yen	158 trillion yen (42 %)
Retail	143 trillion yen	80 trillion yen (56 %)
Total	863 trillion yen	368 trillion (43 %)

[Source: SMEA, 2000a]

Japan's GDP was 863 trillion yen in 1999. And small businesses generated 368 trillion yen (43 percent of the GDP) in that year.

V-B. An Overview of Small Business Policy Institutions

V-B-1. The Commerce and Industry Committee of the Lower House

The Commerce and Industry Committee⁸⁴ of the Lower House has jurisdiction over the matters relating to small business policy. The committee has 40 members as of March 2003. Other than the matters relating to small businesses, the committee can deliberate matters relating to basic policies on the nation's economy and industry, resources, minerals, energy, nuclear safety, patents and antimonopoly.

Unless half of the committee members attend, the committee cannot open a session and make decisions (article 49 of the Diet Law). Any decision in the committee requires consent of half of attendant committee members (article 50). Regarding important matters of public concerns, the committee can hear from concerned parties and scholars (article 51).

V-B-2. The Small and Medium Enterprise Agency (SMEA)

A government bureau that is responsible for small business policy is the Small and Medium Enterprise Agency (SMEA), which is located within the Ministry of Economy, Trade and Industry (METI). The minister of the METI appoints the head of the agency.⁸⁵ The SMEA was founded in 1948 with seven sections within three bureaus.⁸⁶ Article 1 of its Founding Law [*Chūshō Kigyō Chō Secchi Hō*] set the purpose of the agency as follows: “having in mind that healthy and independent small and medium enterprises develop the national economy, prevent the concentration of economic power, and secure a fair opportunity of business activity for people who consider starting enterprise, to foster and develop small and medium enterprises and establish various conditions that help to improve their management”. The agency grew into twelve sections within four bureaus by 1989.⁸⁷

The power of the SMEA is transministerial. The SMEA can ask other ministries to report on and provide information about policy matters regarding small businesses, ask cooperation if necessary, and make policy opinions to them (article 3, section 2, of the Founding Law of the Small and Medium Enterprise Agency [*Secchi Hō*]). It can make opinions on bills that include provisions affecting small businesses (article 4 of the Founding Law). And it can ask the Fair Trade Committee to take an appropriate action if it is found that small businesses are treated unfairly in their trade (article 7 of the

⁸⁴ The committee was renamed as the Economy and Industry Committee [*Keizai Sangyō linkai*]. I use the old name in this dissertation.

⁸⁵ *Kokka Kōmuin Hō* [National Public Servant Act] of 1947, § 55.

⁸⁶ The three bureaus were *Kanbō* [cabinet], *Shinkō kyoku* [Promotion Bureau], and *Shidō kyoku* [Advice Bureau] (SMEA, 1973, 9).

⁸⁷ *Kanbō* writes basic policy. *Keikaku bu* [Planning Bureau] handled matters regarding modernization policies. *Shidō kyoku* handled matters regarding *soshikika* [organizing] policies. *Shōkibo Kigyō bu* [Very Small Enterprise Bureau] handled matters regarding small and medium retailers, small and medium service industries and other types of very small businesses. See Murakami, 1989, 72.

Founding Law). Furthermore, it can seek cooperation from test and research institutions to develop facilities and technologies that might improve small business management (article 9 of the Founding Law).

But the SMEA is not a powerful agency. It is not granted power to advise [*kankoku*] other ministries. Nor is it granted power to ask [*iken o gushin suru*] a prime minister to direct other bureaus to take action under article 6 of the Cabinet Law [i.e., *shiki kantoku ken*]. Although the agency can write laws, it cannot implement them. Power to implement policies is granted to other ministries. For example, it was the Ministry of International Trade and Industry (MITI) that was able to approve a plan for improving industrial structure in a particular industry, one of the major policies under the Small and Medium Enterprise Modernization Promotion Law [*Chūshō Kigyō Kindaika Sokushin Hō*]. And it was the MITI who could advise other ministers to implement the plan [Murakami, 1989, 85].

V-B-3. The Ministry of Economy, Trade and Industry (METI)

The Ministry of International Trade and Industry (MITI) was renamed the Ministry of Economy, Trade and Industry (METI) by administrative reforms of 2000. It consists of one cabinet and six bureaus.⁸⁸ It has ten deliberative councils.⁸⁹ And it has

⁸⁸ The six bureaus, as of January 2003, are (1) Economic and Industrial Policy, (2) Trade Policy, (3) Trade and Economic Cooperation, (4) Industrial Science and Technology and Environment, (5) Manufacturing Industries, and (6) Commerce and Information.

⁸⁹ The ten deliberation councils, as of January 2003, are (1) Industrial Structure [*sangyō kōzō*], (2) Consumer Economy [*shōhi keizai*], (3) Japan Industrial Standard [*nihon kōgyō hyojun*], (4) Measure Administration [*sokuryō gyōsei*], (5) Chemical Substance [*kagaku busshitsu*], (6) Resource and Energy [*shigen Enerugi*], (7) Central Mine Safety [*chūō kōzan hoan*], (8) Industrial Property [*kōgyō shoyūken*], (9) Small and Medium Enterprise Policy [*chūshō kigyō seisaku*], and (10) Independent Administrative Corporation Assessment [*dokuritsu gyōsei hōjin hyōka*].

eight regional offices in order to implement small business policies. Each regional office has a section for small businesses.

Among the ten deliberative councils under the METI, the Small and Medium Enterprise Policy Deliberation Council is the most relevant for small business policymaking. The council has ten divisions.⁹⁰ The council is composed of thirty members with a two-year term. The occupations of the members are as follows: nine university professors, six representatives from trade associations, four entrepreneurs, four representatives from public corporations, one representative from a labor union, one representative from welfare-related association, one journalist, one lawyer, and one governor.⁹¹

V-B-4. Prefectures

Each prefecture has a section of commerce and industry or a section of small and medium enterprises to address small business issues. For example, the Hiroshima prefecture has the Bureau of Commerce, Industry and Labor. The bureau has fourteen sections. One of the sections is the Section of Management Aid. And it approved 429 applications for subsidy, tax and financial benefits according to the Small and Medium Enterprise Management Renovation Aid Law since July 1999.⁹²

V-B-5. Interest Groups

⁹⁰ The ten divisions, as of January 2003, are (1) Basic Policy [*kihon seisaku*], (2) Enterprise Institution [*kigyō seido*], (3) Management Stabilization [*keiei ante*], (4) Small and Medium Enterprise Management Assistance [*chūshō kigyō keiei shien*], (5) Management Assistance [*keiei shien*], (6) Organization and Alliance [*soshiki renkei*], (7) Transaction [*torihiki*], (8) Commerce [*shōgyō*], (9) Very Small Enterprise [*shōkibo kigyō*], and (10) Domain Coordination [*bunya chōsei*].

⁹¹ To see the members of the council, go to <http://www.meti.go.jp/report/committee/index.html> (valid as 27 January 2003).

V-B-5-a. Typology of Small Business Organizations

There are at least six types of small business organizations. First, there are industry-specific organizations. As we will see in Chapter IX, small business entrepreneurs in the light printing industry formed their trade association called Japan Light Print Industry [*Nihon Kei Insatsu Kōgyō Kai*] (below p. 154). This is an example of the first type.

Second, there is an issue-specific organization that was formed in order to resolve a particular problem. A Discussion Group for Facilitating the Small and Medium Enterprise Domain Secure Law [*Chūshō Kigyō Bunya Kakuho Hō Sokushin Kyōgikai*] is an example of this type (below p. 162). Industry-specific associations such as bean curd makers, printers, cleaning, and others who faced the same economic problems formed this organization.

Third, there are more inclusive, umbrella organizations. There are at least four major umbrella organizations in Japan.⁹² One of them is the Japan Chambers of Commerce and Industry [*Nihon Shōkō Kaigishō*] (JCCI). I cannot explain why there are four or more umbrella organizations and why they don't unite. But they often coordinate their activities for public policy issues.

Fourth, there are public organizations that exclusively address issues facing small businesses. The Small and Medium Enterprise General Public Corporation [*Chūshō Kigyō Sōgō Jigyō Dan*] is a special public corporation [*tokushu hōjin*] that handles large projects that implicate several prefectures (Appendix).

⁹² See the web site of the Hiroshima prefecture (www.pref.hiroshima.jp/shoukou/keiei/shounin/11.html).

⁹³ The four are (1) the Japan Chambers of Commerce and Industry [*Nihon Shōkō Kaigishō*] (JCCI), (2) the National Federation of Small Business Associations [*Zenkoku Chūshōkigyo Dantai Chuōkai*; in short *Chuōkai*] (NFSBA), (3) the National Confederation of Commerce and Industry Club [*Zenkoku Shōkōkai*

Fifth, there are small business associations that maintain affiliation with a particular party. An example of this type is the Small and Medium Enterprise All Federation [*Chūshō Kigyō Sō Rengō*], which will appear in Chapter VIII (below p. 151). This association had affiliation with the Liberal Democratic Party.

Finally, there are idiosyncratic associations that are difficult to characterize. The best example of this type is the Japanese Political League of Small and Medium Enterprise. Although no longer exists, it played a prominent role in the legislative process of enacting the Small and Medium Enterprise Organization Law of 1957 (Chapter VII) and the Basic Law of 1963 (Chapter VIII). The League was formed in 1956 under the leadership of Yoshisuke Ayukawa, president of the Nissan conglomerate (below p. 113).

V-B-5-b. Umbrella Organizations?

There are at least four inclusive, umbrella organizations for small businesses in Japan. One of them is the Japan Chamber of Commerce and Industry [*Nihon Shōkō Kaigishō*] (JCCI). The JCCI was established in 1878 and one of the most venerable institutions in Japan. It has 526 branches and 1,620,000 members nationwide as of April 2001 (www.jcci.or.jp). The chambers were created under the Chamber of Commerce and Industry Law. Their activities are to disseminate information concerning government policies and programs and to present policy demands of small businesses to the government.

Rengōkai: in short *Shōkōkai*] (NCCI) and (4) the National Shopping District Promotional Cooperatives [*Zenkoku Shōtengai Shinkō Kumiai*: in short *Zenshinren*] (NSDPC).

There is a question about the capability of these umbrella organizations to control industry-specific interest groups. There are many observers who opine that diversity among small businesses makes it difficult for them to speak with one voice (Bean, 1997, 10; Zeigler 1961). Muramatsu et al. concluded that umbrella organizations such as the Japan Chamber of Commerce and Industry did not have control over other interest groups in their opinion survey of Japan's interest groups (1986, 167). According to their survey, peak organizations did have a tense relationship with other industry-specific organizations (Ibid., 248). They specifically mentioned that industry-specific interest groups did not rely either on umbrella organizations or on the government (Ibid., 111).

Also, it is not clear how much a small business organization can control its individual members. For example, can an organization order its members to vote for a particular political candidate? Jun Watanabe doubted an organization's capability to collect votes (2000, 59). What it can do about vote-collecting activity is only to give politicians a list of address of their members. Although politicians visit their members, there is no guarantee that members vote for the visiting politicians.

V-B-5-c. Political Power of Interest Groups

The influence of small business organizations has been debated. On one side, there are opinions that small business organizations have strong influence over the government. Politicians cannot ignore small businesses due to their large number. As for evidence, every political party has policy platform for small businesses (Teraoka, 1997, 10). On the other side, there are opinions that small business organizations do not have influence over the government (Tatebayashi, 1997, 188; Watanabe, 2000, 3; Higuchi,

1977, 245-251; Hiwatari, 1991, 84-5). Jun Watanabe (2000), studying the process of introducing indirect tax law in the 1980s, concluded that small businesses failed to mobilize opposition activity and did not have influence over the process. I hope that my case studies on small business policymaking, which will examine how much interest groups succeed in reflecting their policy preferences in the final outcomes of policy process, help readers to judge this issue of political power of interest groups.

V-B-5-d. Political Advancement

Small business organizations have not succeeded in sending their common representatives to the Diet. In 1956, the National Council of Small and Medium Enterprise Tax Reform [*Zenkoku Chūshō Kigyō Zeisei Kaikaku Kyōgikai*], which was composed of 300 groups, fielded their own candidates for the Upper House elections. But they could collect only 50,000 votes; none of the candidates was elected. In 1959, the Japanese Political League of Small and Medium Enterprises [*Nihon Chūshō Kigyō Seiji Renmei*: in short JPLSME] fought for elections. Only Yoshisuke Ayukawa, the head of the JPLSME, and his son were elected. But the son Kinjirō was found guilty of a violation of election law, and his father resigned in order to take an ethical responsibility for his son's violation. It is said that the lack of unity among small business organizations was the major cause of these failures of political advancement into the Diet (Hiwatari, 1991, 85). I could not find any movement on the side of small business associations to send their own representatives to the Diet during my research.

V-B-5-e. Affiliation

Mochizuki said that interest groups do not have exclusive relationships with any political party (1982, 334). Depending on political issues, interest groups switch their support and further their interests. This flexibility increases the influence of opposition parties. Opposition parties can get support from small business organizations by proposing more generous policies than the ruling party proposes.

But some groups do have a political affiliation with a particular political party. For example, it is widely known that the Democratic Commerce and Industry Association [*Minshu Shōkōkai*, in short *Minshō*] has a stable relationship with the Japan Communist Party (Calder, 1988, 200). And the Small Business General League [*Chūshō Kigyō Sō Rengō*] was a small business affiliate of the LDP (Ibid., 342).

V-B-5-f. Independence of Small Businesses

Watanabe insisted that small businesses are politically and economically neutral and independent (2000, 4). But Yū Uchiyama (2001) and Hiroshi Teraoka are skeptical about the independence of small businesses. They both point to the government's policy of organizing small businesses. Many trade associations and umbrella organizations were formed under laws,⁹⁴ administrative guidance and government approval. And they continued to have a relationship with the government through subsidy (Teraoka, 1997, 11). For example, the Japan Chamber of Commerce and Industry received 460 million yen from the government as subsidy and commissioned funds [*itakuhi*] in the fiscal year of 2001. The amount represented roughly 13 percent of its total revenue of 3.5 billion yen. The percentage is much higher for the National Confederation of Commerce and

Industry Club [*Shōkōkai*]. It represented roughly 36 percent of its total revenue of 1.1 billion yen in the same fiscal year. These numbers are not sufficient to conclude the small business organizations are dependent on the government. But, given the amount of benefits that small businesses receive from government programs (above p. 3) and a barrage of protective laws (Appendix), one of which will be discussed in Chapter IX, the image that the government heavily protects small businesses cannot be escaped.

⁹⁴ For example, chambers of commerce and industry were under the Commerce and Industry Chamber Law, Law No. 143 of 1953. Commerce and Industry Clubs are under the Law concerning the Organization of

VI. Research Design

VI-A. Policy Analysis

To examine the hypotheses that I have presented in Chapter IV, I will conduct four case studies of the processes of small business policy. Theodore Lowi pointed out one limitation of case studies. He said that a case study “suffers the one debilitating handicap...the problem of uniqueness....How are we to know the extent to which the patterns the authors discover apply to all cases?” (1964, 686)

Although Lowi’s point is valid, there is a benefit from case study. David Friedman explained the benefits of the case study of a particular industry as follows: “It is...possible to find out who actually makes policy and how the contents of various initiatives come to be defined” (1988, 30). “Political archaeology”, or process tracing, is appropriate to find out who actually influences policymaking.⁹⁵ Since this dissertation tries to answer the question of who is the most influential in small business policymaking and to discern how political actors actually influence the process, I have decided to conduct case studies.

In order to give an analytical scheme to case studies, I employ a framework of policy analysis developed by Gary Brewer and Peter de Leon (1983). They elaborated a general sequence in the life span of public policy with six phases (i.e., initiation, estimation, selection, implementation, evaluation, and termination). Out of the six phrases, I will focus the following four dimensions: (1) Initiation, (2) Formulation, (3) Mobilization, and (4) Decision.

Commerce and Industry Club, Law No. 85 of 1960.

To make this dissertation manageable, implementation, evaluation, and termination are omitted. The first dimension, i.e., initiation, takes place when political actors recognize or identify a public issue. Questions to ask in this stage are as follows. Who conceives an issue at first? Who brings issues into the attention of the public? Who brings issues into the attention of lawmakers? If interest groups conceive issues, to whom do they address issues?

The second dimension, i.e., formulation, concerns the process in which political actors develop policy proposals in order to cope with public issues. I will ask who formulates policy proposals. How are different proposals compromised? Who oversees the process in which formulation takes place? In which forum does formulation take place, in the Diet or in the LDP's Policy Affairs Research Council?

The third dimension, i.e., mobilization, is the one where political actors, such as interest groups and citizens, mobilize their time, energy and money to pass or oppose bills. Who are the major advocates or opponents for a particular bill? What kind of action do they take? Are their actions effective or useless?

The last dimension, i.e., decision, is the process in which political decisions are made. Who decided a policy position on a particular issue in the ruling party? Who made a compromise among competing versions of bill? How is a stalemate in Diet deliberation resolved? Did opposition parties succeed in modifying bills? Do they get meaningful modifications, or are modification just face-saving? I will ask these questions in this dimension.

⁹⁵ McKean, 1993, 75; Uriu, 1996, 40.

VI-B. Case Selection

Since I will examine the popular opinion that there has been a shift in policymaking power from bureaucrats to LDP politicians in postwar Japanese politics, I have to select major small business policies that evenly spread over the postwar period. I will choose one major policy from each decade between 1955 and 1993. My choices are as follows.

Table 6: Case Selection

	Subjects	Major Economic Issues
1950s	Organization Law of 1957	Rebuild
1960s	Basic Law of 1963	High Growth
1970s	Domain Coordination Law of 1977	Oil Crises
1980s	SII ⁹⁶ Agreements on Big Store Law of 1990	Trade Disputes with the U. S.

Criteria for these choices are twofold. One is the publicity that each case of policymaking received in the press. This is a practical reason since high publicity increases the availability of data for case studies. Second, each case should be related to a major economic issue that reasonably characterized the decades.

I have selected the Small and Medium Enterprise Organization Law of 1957 from the 1950s. The 1950s were a decade of reconstructing the Japanese economy from the ashes of war devastation. Organizing small businesses is one of the major goals of the government during the decade. Also the law was controversial due to the alleged infringements on the constitutional principle of the freedom of association, and therefore received large media coverage.

The Small and Medium Enterprise Basic Law of 1963 is my selection from the 1960s. The 1960s can be characterized as the decade of high economic growth. A key

word for this decade was modernization. Not only the small business sector but also agriculture and other industries were targets of the modernization campaigns of the government. Since the law was the first basic law for small business policy, its legislative process received intense media coverage.

The 1970s was a decade when external shocks, such as oil crises and the revaluation of the yen, rocked Japan. The shocks put big businesses into a competitive position against small businesses, and conflicts between big and small businesses emerged as economic issues. The Small and Medium Enterprise Domain Coordination Law of 1977 was enacted to cope with the conflicts. Because it was controversial due to its effects on the constitutional principle of the freedom of enterprise, the law generated heavy media coverage.

Probably everyone would agree that a major economic issue of the 1980s was trade dispute with the United States. The Structural Impediment Initiative between Japan and United State was aimed at, among many issues, deregulating the retail industry in Japan. The retail industry contained a large number of small businesses. Also the decision-making process of deregulating the Big Store Law received large media coverage because the process might lead to American economic sanctions depending on its outcome.

VI-C. Methodology

To conduct case studies, I have exclusively relied on primary and secondary sources. The government published a book that elaborated the interpretation of each legal provision of a law. The book provided a brief description of the legislative process

⁹⁶ SII stands for Structural Impediment Initiative.

for each law. Such a book is available for all laws under case studies, except for the decision-making process of revising the Big Store Law.

I requested the Small and Medium Enterprise Agency and the Ministry of Economy, Trade and Industry to disclose administrative documents that might reveal the policymaking process by resorting to the Information Disclosure Law. However, not many documents were released. Many sentences are blacked out in those released documents on the grounds of privacy and foreign policy consideration. I could not get much information useful for this dissertation. I also tried to interview persons who were involved in policymaking processes under case studies. However, my requests for interviews were ignored and declined.

Secondary sources are books by individual authors, law journals, and articles in weekly magazines. Newspapers that I mainly relied upon were *Nihon Keizai Shimbun* [in short *Nikkei*] and *Asahi Shimbun* [in short *Asahi*]. I also researched a newspaper published by the Liberal Democratic Party. The National Diet Library, Tokyo, Japan, provided me almost all of the information necessary for this dissertation.

VII. Case 1: The Small and Medium Enterprise Organization Law of 1957

The 1950s were a decade when Japan overcame the devastation of the Second World War, and entered an era of high economic growth. Major economic institutions were established during this decade. The Small and Medium Enterprise Agency started to build up postwar small business policy. One of the major policies during this decade was to organize small businesses in order to improve management and reduce excessive competition.

In 1957, the Small and Medium Enterprise Organization Law was enacted in order to cope with excessive competition through the coordination of production and sales among small businesses. Because the law might restrict the freedom of association, opposition to the law was so strong. Big businesses, consumer groups and bureaucrats opposed the bills.

Opponents of the bill argued that a government could not order small businesses to join a trade association. But an advocate of the bill wanted the government to force all small businesses to become members. Setting aside both policy positions, the ruling Liberal Democratic Party settled the issue with a provision that allowed the government to make an order with some conditions.

VII-A. Economic Background

Huge unemployment, a shortage of food and energy, and high inflation were major social and economic problems at the end of the war. The so-called “Dodge Line”⁹⁷

⁹⁷ American banker Joseph Dodge set three principles: (1) balance of budget, (2) suspension of government lending, and (3) suspension of government subsidy.

was imposed in 1949 to subdue inflation. The result was a recession, causing many small businesses to go bankrupt. But the Korean War happened in June 1950, and brought America's special war procurement to the Japanese economy. This was a boost⁹⁸ and opened the possibility for growth.

From a historical point of view, the 1950s were a decade when the major economic policies for the postwar economic growth were established. Takafusa Nakamura (1993, 159-161) listed four economic institutions for high growth: (1) government financial institutions, (2) tax policies (which were aimed at facilitating business investment), (3) exchange control [*gaika wariate seido*] (to control imports and to protect domestic industries), and (4) introduction of foreign technology.⁹⁹

For small business policy, the 1950s was the decade of rebuilding. The Small and Medium Enterprise Agency was established in 1948. Major government financial institutions pertinent to small businesses were established.¹⁰⁰ Along with providing finance, organizing small businesses was one of major policies that the SMEA undertook in this decade. To organize small businesses, the government enacted at least five laws from 1949 to 1952 (Appendix: 5. Organization).

There are largely two reasons for organizing small businesses. One reason was to improve the management and efficiency of each small business by taking advantage of the economies of scale. Some business activities can be better done when numerous small businesses are united. For example, organizations would provide several economic benefits such as offering group buying plans, group insurance, member's discounts, and

⁹⁸ \$590 millions in 1951, \$800 millions for 1952 and 1953 (Nakamura, 1993, 157).

⁹⁹ 27 foreign technologies were introduced in 1950; 101 cases in 1951, 133 cases in 1952, 103 cases in 1953, and 82 cases in 1954 (Nakamura, 1993, 161).

special member prices for consulting or technical services (Lynn and McKeown, 1988, 3).¹⁰¹

Another reason to organize small businesses was to eliminate so-called excessive competition among them.¹⁰² Excessive competition happens when there are too many producers chasing limited amount of demands. They invest heavily and produce a lot of goods and services, thereby decreasing prices and profits. Decreased profits worsen the management condition of producers. One of the ways to resolve excessive competition is to coordinate the level of production and marketing practices among producers.

Organizing small businesses was the first step for coordination these activities.

VII-B. Functions of the Small and Medium Enterprise Organization Law of 1957

Organizing small businesses in order to increase management efficiency and reduce excessive competition was the goal of the Small and Medium Enterprise

¹⁰⁰ People's Finance Corporation [*Kokumin Kinyū Kōko*], Small and Medium Enterprise Credit Insurance [*Chūshō Kigyō Shinyō Hoken*], and Credit Surety Associations [*Shinyō Hoshō Kyōkai*] were established, respectively, in 1953, 1950 and 1953.

¹⁰¹ There are other benefits accruing from organizations. (1) Product promotion (e.g., advertising to increase customer awareness, or holding trade shows); (2) Labor relations (monitoring labor agreements in the industry); (3) Standard setting (working with private or public agencies to develop product or process standards for the industry); (4) Data collection (compiling statistics from members or from other sources on industry production, sales, capacity utilization, and imports and exports); (5) Research and development (disseminating technical information to members); (6) Educational services (preparing seminars, audio-visual materials, printed matters pertaining to successful operations in the industry); (7) Conventions and general membership meetings; and (8) Public relations (often concerning government relations or to product promotion). [Source: Lynn and McKeown, 1988, 3]

¹⁰² Excessive competition or excessive capacity has often become an economic problem. In 1925 when the government proposed two bills that were intended to organize small businesses, a government official described an industrial situation at the time as follows. "There are too many small and medium firms...*competing uselessly...selling under the cost*" (the italic is mine) (Teraoka 2000). In 1956 when the Textile Law was passed, the Japan Spinners Association, who was the principal proponent of the law, said that the lifting of capacity restriction in June 1950 exacerbated the industry's tendency toward *chronic excessive capacity or excessive competition* (Uriu, 1996, 55). In 1999, the government estimated an *excessive capacity* of the private sector at 85 trillion yen (\$ 653 billions at the exchange rate of one dollar equaling 130 yen) (*Nikkei*, 22 March 1999). Since this excessive capacity was considered one of the causes of the economic depression of the 1990s, the government decided to help businesses to eliminate their capacity by providing tax benefits (*Nikkei*, 25 April 1999).

Organization Law (SMEOL) of 1957. Article 1 set its purpose. It said that this law allowed small business entrepreneurs to conduct their business cooperatively and to improve the efficacy of their business management. To realize this purpose, the law provided five main functions. They were as follows:

1. to allow small business entrepreneurs to form a commerce and industry union (*shōkō kumiai*) (article 9);
2. to allow the union to make collective agreements (*kumiai kyōyaku*) (articles 17, 18, and 28);
3. to mandate big businesses to faithfully negotiate with the representatives of the union over the union's collective agreements (articles 29, 30);
4. to allow the government to order non-members to join the union (article 55); and
5. to allow the government to regulate business activities of big businesses in order to realize the union's collective agreements (articles 56).

Function 2 allowed a commerce and industry union to make collective agreements. Collective agreements could cover the amount of production, marketing, and prices of goods and services (paragraph 4, article 17). Obviously this seems to constitute a violation of antitrust rules such as price fixing and other restraints of trade. So the law required the union to get an *approval [ninka]* from relevant agencies for agreements to come into effect (article 28). Also the law required a ministry, having received a request for approval from commerce and industry unions, to get an *consent [dōi]* from the Fair Trade Commission for collective agreements to come into effect (article 90). The Fair Trade Commission was allowed to nullify collective agreements if it judged that the agreements would restrain trade and undermine public interests (article 91).

Even if small businesses in a given industry comply with a union's collective agreements, the agreements will not be effective unless big businesses in the same industry follow them. Function 3 was intended to urge big businesses to negotiate faithfully with the representatives from a commerce and industry union for the union's collective agreements (article 29). Article 30 allowed the relevant ministry, if necessary, to advise [*kankoku*] big businesses to follow the union's collective agreements. These articles were intended to confer commerce and industry unions with a strong collective-bargaining power against big businesses.

Function 4 was intended to enforce collective agreements of unions. This law did not mandate all entrepreneurs in a given industry to become members of a commerce and industry union. However, for collective agreements of unions to be effective, all entrepreneurs in the industry, whether member or nonmember, had to comply with the agreements. Thus the law allowed relevant ministries to order nonmembers to join the union if necessary (article 55).

Also, function 5 was aimed at making the union's collective agreements effective. The relevant ministry can regulate business activities of big businesses in a concerned industry in order to realize the union's collective agreements (article 56). Article 56 was prepared for the cases in which faithful negotiation (article 29) and ministries' advice (article 30) were not effective.

The most controversial provision in the law was article 55 which allowed the government to order nonmembers to join unions. As we will see later (below p. 114-5), bureaucrats felt that this provision might compromise the constitutional provision for the freedom of association (Article 21, Section 1, of the Japanese Constitution). Also, they

thought that article 17, which allowed collective agreement, might violate antitrust laws. And they worried that the law would undermine consumer interests by restricting competition among producers.

VII-C. Political Background

The Small and Medium Enterprise Organization Law was established in 1957. The bill for the law was introduced by the Kishi cabinet into the Diet on 2 April 1957, and was passed on 14 November 1957. What was the political context for the passage of the law? First, the power structure of the Diet and, second, that of the LDP are elaborated below.

VII-C-1. The Diet

The power structure in the Lower House of 1957 was determined by the outcomes of the 27th General Elections,¹⁰³ which were held on 27 February 1955. The general elections gave the Liberal Party 112 seats, the Democratic Party 185 seats, the left Socialist party 89 seats, the right Social party 67 seats, and 14 seats for others.¹⁰⁴ As of February 1955, the Liberal Democratic Party was not formed yet. Thus the ruling party dominance model did not apply. But on 15 November 1955, the Liberal Party and the Democratic Party formed the Liberal Democratic Party, whereas the left and right

¹⁰³ The reason why this election is called “general” is that all members of the Lower House simultaneously face election. On the other hand, only half of the members of the Upper House face election at one time (Article 46 of Constitution).

¹⁰⁴ Results of the 27th General Elections of 27 February 1955

Political Parties	Numerical Strength in the Lower House	
Democratic Party	185 seats	LDP was formed in November 1955
Liberal Party	112 seats	
Left Socialist Party	89 seats	JSP was formed in October 1955
Right Socialist Party	67 seats	

socialist parties formed the Japan Social Party on 13 October 1955. Now, the model should apply to Japanese politics. Since the LDP had 297 seats out of 467 seats, which was an overwhelming majority in the Lower House, the LDP expected an easy victory in legislative activities in the House. Thus, according to the model, the ruling party should not make compromise with opposition parties in the lawmaking process.

VII-C-2. The Factions of the Liberal Democratic Party

What was the factional balance of power within the Liberal Democratic Party in 1957? Which factions supported, and which opposed, Prime Minister Kishi? Since I have assumed that political power structure affects policy process, answers to these questions should enable me to have an idea about what is likely in policy process. There were eight active factions around the year of 1957,¹⁰⁵ and it would be useful to see the party's presidential election in order to understand Kishi's standing in the party's factional balance of power. The LDP had the 2nd party presidential election on 14 December 1956. At the first vote, Kishi had 223 votes, with the support of factions of Eisaku Satō and Ichirō Kōno. Tanzan Ishibashi got 151 votes, and Mitsujiro Ishii got 137. Since nobody got a majority at the first vote, the final vote was held. Then Ishii voted for

¹⁰⁵ Numerical Strength of LDP Factions in 1957

Factions	Relative strength (%)	2 nd Presidential Election
Kishi	24	Kishi got 251 votes at the final vote from Kishi, Satō and Kōno factions.
Satō	9	
Kōno	13	
Ishibashi	6	Ishibashi got 258 votes at final vote from Ishibashi, Ishii, Ikeda, Ōno and Miki factions.
Ishii	8	
Ikeda	9	
Ōno	10	
Miki	14	

[Source: Leiserson, 1968, 777. The figures are a percentage of each faction members against all LDP Lower House members in 1957] There was the Hatoyama faction. But it was not an active unit after its leader resigned (Leiserson, 1968, 777).

Ishibashi according to their agreement¹⁰⁶ that had been made before the election.

Ishibashi was elected as the LDP's president with the support from the factions of Ishii, Hayato Ikeda, Takeo Miki, and Banboku Ōno. This outcome suggests that an anti-Kishi coalition was possible.

Although Ishibashi had won the presidential election and became prime minister, one month later he resigned due to pneumonia. Nobusuke Kishi succeeded Ishibashi as prime minister on 25 February 1957. Although Kishi could expect Satō to always support him,¹⁰⁷ a coalition of other factions would easily overwhelm the Kishi-Satō alliance. The formation of an anti-Kishi coalition was plausible, as we have seen above.¹⁰⁸ Although Kishi was characterized as a charismatic leader,¹⁰⁹ his standing in the party was not very strong. This power structure in the party might suggest that Kishi may not play a dominant role in the policymaking process.

VII-C-3. The Prime Minister: Nobusuke Kishi

Nobusuke Kishi served as prime minister from 25 February 1957 to 19 July 1960 (Curtis, 1999, 246). It is useful to know his philosophy on economic policy. When he was working as a high-ranking bureaucrat in the Ministry of Commerce and Industry (a predecessor of the Ministry International Trade and Industry) before and during the Second World War, he was impressed by the effectiveness of the Soviet Union's 1st Five-Year Plan (1928-1933) (Hara, 1995, 47) and studied Germany's industrial rationalization

¹⁰⁶ Ishibashi and Ishii expected Kishi to come first at the first vote. Thus they agreed that the one who came third at the first vote would support at the final vote the one who came second at the first vote.

¹⁰⁷ Eisaku Satō was a young brother of Kishi, and they were in a good term.

¹⁰⁸ According to Yoshihisa Hara, Ikeda, Miki, and Ishibashi clearly showed anti-Kishi sentiment, while Ōno and Ishii were opportunistic (1995, 200).

¹⁰⁹ See Hara 1995.

plan¹¹⁰ (Ibid., 49). Due to these observations, he abandoned the principles of free market¹¹¹ and became a believer of government intervention in industries.

With this belief, he worked for the passage of the Law Controlling Important Industries [*Jyūyō Sangyō Tōsei Hō*] in 1931. This law enabled the ministry to control nineteen industries, such as steel and cement. A similar law was passed for automobiles in 1936. The government intervened not only in important industries but also in industries typical to small businesses. Under the authority granted by the Industry Union Law [*Kōgyō Kumiai Hō*] (1931 in effect) and Commerce Union Law [*Shōgyō Kumiai Hō*] (1932 in effect), the government was able to intervene in a variety of small business industries, from matches to cotton (Hara, 1995, 50-51). There is nothing to suggest that he changed his belief in industrial policy after the end of the war. Thus it can be said that he favored a controlled economy.

In the ruling party dominance model, the appointment power of party leaders plays an important role. The model assumes that leaders appoint their loyalists to important party and government positions (above p. 58, 65-6). Kishi appointed Shōjirō Kawashima as a secretary general, and Eisaku Satō as the chair of the Executive Council. Kawashima is Kishi's right-hand man.¹¹² Satō was Kishi's brother in a good term. Isao Murakami was appointed as the chair of the Diet Strategy since July 1957. Jūichirō Tsukada became a chair of the Policy Affair Research Council (PRAC) of the ruling party in January 1957, and he was a senior member of the Ishii faction (*Nikkei*, 12 January 1957, p. 1). Takeo Miki succeeded Tsukada as the chair of the PARC in July

¹¹⁰ Germany's industrial rationalization plan was that the German government intervened in important industries such as steel and automobiles, and promoted trust, cartels, and standardization of products.

¹¹¹ Kishi said that before he and his colleagues were shocked by the USSR's five-year plan, they had been familiar with the principles of free markets (Hara, 1995, 47).

1957. Mikio Mizuta had become the minister of the Ministry of International Trade and Industry (MITI) in December 1956 (*Nikkei*, 24 December 1956, p. 1) and continued to be the minister under the Kishi cabinet. He was a senior member of the Ōno faction.

Shigezaburō Maeo succeeded Mizuta as the minister of the MITI since 10 July 1957, and he was a senior member of the Ikeda faction.

Kishi succeeded in fielding his loyalists to the secretary general and the Executive Council. But he failed to secure the PARC and the MITI, which were directly related to the lawmaking process. Did his failure to secure these posts affect his ability to control the process? Let us to examine the case study with this question in mind.

Table 7: Kishi's Appointments to Party Posts

Position	Appointment	Relationship with Kishi
Secretary-general	Kawashima	Kishi faction
Chair of executive council	Satō	Satō faction (confident)
Chair of PARC	Tsukada (January 1957~)	Ishii faction (opportunist)
	Miki (July 1957~)	Miki faction (enemy)
Chair of Diet Strategy	Murakami	?

VII-D. Law-Making Process

VII-D-1. Initiation

The most conspicuous initiator of the Small and Medium Enterprise Organization Law was Kishi's friend Yoshisuke Ayukawa.¹¹³ Ayukawa's preference and action for

¹¹² Kawashima was one of the oldest Kishi's followers since Kishi resumed his political activity by opening his office in *Ginza*, Tokyo in December 1949 after his release from the *Sugamo* Prison (Hara, 1995, 151).

¹¹³ Ayukawa and Kishi were not only remote relatives but also good friends: they came from the same prefecture *Chōshū* (Hara, 1995, 62), and were friends in Manchuria. Ayukawa was a president of Nissan conglomerate that governed 130 companies, 150,000 employees, and a total capital of 800 million yen before and during W. W. II. In 1937, Kishi asked Ayukawa to come to Manchuria to develop heavy industries in Manchuria (Hara, 1995, 62-3; Kobayashi, 1973a, 50). They both were imprisoned in the Sugamo Prison after the war (Kobayashi, 1973b 68). Furthermore, after being released from the prison, they became politicians in *Nagata-cho*. Ayukawa worked for Kishi's top economic advisor, and was himself elected to the House of Councilors in 1953 and in 1959 (Kobayashi, 1973a, 50).

this law were clear. Naoki Kobayashi summarized his belief and preference as follows:

“[h]e was convinced that the only way for Japan’s small and medium enterprises to eliminate endemic excessive competition, and to break through the ‘depressed and miserable social condition,’ would be ‘to organize themselves, both labor and management, so that their political force might be able to effectively influence the national legislature for the improvement of their business’” (Kobayashi, 1973b, 68).

Ayukawa not only wanted to organize small businesses but also wanted “nearly unconditional and compulsory union membership” (Kobayashi, 1973a, 51).

Ayukawa created the Japanese Political League of Small and Medium Enterprise (JPLSME) in April 1956. Immediately in the next month, it published its first draft of the Small and Medium Enterprise Organization Law. Later it was referred to the government’s Small and Medium Enterprise Promotion Council (Kobayashi, 1973a, 50). After some modifications with the assistance of the Legislative Bureau of the House of Councilors, the League published its third draft in a nearly completed form. Ayukawa wanted the government and the Liberal Democratic Party to submit the draft to the Diet. On 14 August 1956, he met with the members of the LDP’s National Organization Committee [*zenkoku soshiki iinkai*] to ask them to pass his draft in the Diet (Kobayashi, 1973b, 73). This supports the ruling party dominance model’s hypothesis that interest groups should lobby the ruling party.

VII-D-2. Formulation

Ayukawa’s initiation drew a variety of responses. The Small and Medium Enterprise Agency wrote a government bill in the summer of 1956. The Japan Socialist

Party wrote its bill in the fall of 1956. And other small business interest groups, such as the Japan Chamber of Commerce and Industry, the All Japan Small and Medium Enterprise Council, and the National Small and Medium Enterprise Cooperatives' Central Association, presented their own draft, although their drafts did not receive as much attention as Ayukawa's did.

VII-D-2-a. The Small and Medium Enterprise Agency (SMEA)

The SMEA, which was responsible for drafting legislation for small business policy, had not thought of anything like the Small and Medium Enterprise Organization Law before. Especially repugnant for bureaucrats was the provision that was to compel all small businesses to join trade associations. Tameji Kawakami,¹¹⁴ the director of the SMEA, said that it would be improper to unconditionally force all small businesses to become a member of commerce and industry union" (*Asahi*, 2 October 1956). But the Ayukawa's JPLSME was vehement in insisting on its own version. Subsequently, bureau and section chiefs of the SMEA and Kenkichi Matsuzaki of the JPLSME met at a meeting of the Small and Medium Enterprise Special Council of the LDP. And they decided to have the government submit the bill in exchange for the JPLSME's acceptance of the moderate government position on the issue of compulsory membership. Here we can see the limitation of political power of small business associations. The JPLSME could not incorporate in the bill its strong version of the compulsory membership provision.

¹¹⁴ He resigned from the director of the SMEA in August 1958. Then he ran the 1959 election as the LDP's candidate, and was elected to a member of the Upper House.

VII-D-2-b. Other Government Agencies

From the beginning, government agencies were skeptical of the very idea that the government should help cooperative unions to control their production and marketing. The Fair Trade Commission doubted the legality of the legislation. For them, regulating all kinds of enterprises and compelling every enterprise to join a commerce and industry union will restrict legitimate activities of nonunion members, undermine consumer interests, and might violate antitrust laws (Kobayashi, 1973a, 53). The Legislative Bureau of the Cabinet also doubted the legislation. For them, the provision in the government bill imposing compulsory union membership will violate the freedom of association guaranteed in the Constitution (article 21, section 1) (Ibid., 54). The Ministry of Finance, also, opposed the bill's provisions creating the Fire Safety Cooperation Union [*kasai kyōsai kyōdō kumiai*] in defense of insurance companies under its jurisdiction.

VII-D-2-c. The Small and Medium Enterprise Promotion Council

The Executive Council of the Liberal Democratic Party proposed to the cabinet that the Small and Medium Enterprise Promotion Council should be set up to address economic problems facing small businesses, especially the issue of organization and tax reduction (*Nikkei*, 13 June 1956, Evening ed., p. 1; Kobayashi, 1973a, 50).¹¹⁵ The Council had two divisions, and the second division addressed the issue of organization. The second division had its first meeting on 3 August 1956. Some members emphasized the necessity of compulsory membership. Others asserted that very small businesses should be focused in a new policy since the existing policy was aimed at medium-sized

enterprises. Also, the government should prepare welfare facilities for employees of small businesses, and the Housing Public Corporation [*Jutaku Kōdan*] should be utilized to finance home construction for small business employees (*Nikkei*, 4 August 1956, p. 2). The second division had twelve meetings, and submitted its final report on 24 December 1956.

The Council's final draft weakened the severity of the provisions for compulsory union membership and strengthened a union's power for collective bargaining, thereby making its draft close to the Japan Socialist Party's version than that of the government. Without waiting for the final proposal of the council, however, the government started to formulate the bill in full scale around November 1956 (Kobayashi, 1973a, 52). This government behavior casts doubts on the importance of government deliberative councils. According to the corporatist (above p. 25) and pluralist (above p. 33) models, deliberative councils play an important role in the policymaking process. But, as this case shows, it is up to the government whether their opinions should be incorporated in the bill or not.

VII-D-2-d. Formulation at the Liberal Democratic Party (LDP)

How did the Liberal Democratic Party formulate the bill for the issue of organization? Who were the major decision-makers in the process? Let us look the process with these questions in mind. The ruling party initially assigned the issue to the Small and Medium Enterprise New Policy Draft Committee [*Chūshō Kigyō Shin Seisaku Kiso Iinkai*]. On 28 May 1956, the committee called for giving small businesses a preferential treatment in government procurement, helping the expansion of sales and

¹¹⁵ According to Kobayashi (1973a, 50), Yasuhiro Nakasone, a LDP lawmaker, was a main advocate for the establishment of the Council. Nakasone belonged to the Kōno faction that supported Kishi in the LDP's

providing tax and financial benefits. Regarding the issue of organization, the committee proposed to reconsider the principle of free membership of cooperative unions and strengthen small business organizations as a new policy (*Nikkei*, 29 May 1956, p. 1).

As mentioned above, the Executive Council of the LDP asked the government to set up the Small and Medium Enterprise Promotion Council to formally discuss the issue of organization in June 1956. Separately, the Executive Council set up a Special Committee for the Small and Medium Enterprise Countermeasure in the Policy Affairs Research Council (PARC) of the party on 15 January 1957. It seems that the two forums, one in the government and the other in the party, were set up in order to carry the task of enacting law. Although I cannot say definitely,¹¹⁶ I feel that the forum in the party was aimed at generating a consensus among party members and the forum in the government was aimed at generating a consensus among relevant bureaus and bringing civilian input into the policy process, thereby attaching legitimacy to the process.

In February 1957, the Commerce and Industry Division of PARC wrote its own bill by referring to the government bill and the JPLSME's bill. The LDP's bill was closer to that of the JPLSME. The most important difference between the government bill and that of the LDP was on the issue of compulsory membership. The government basically accepted compulsory membership but added a condition. The government bill provided that the government should order nonmembers to follow collective agreements of

presidential election.

¹¹⁶ There were three forums in the Liberal Democratic Party to formulate the bill in 1956 and 1957. They were the Small and Medium Enterprise New Policy Draft Committee (Draft Committee), the Special Committee for the Small and Medium Enterprise Countermeasure (Special Committee), and the Commerce and Industry Division of the PARC (Division). The Draft Committee was active in 1956, and the Special Committee was set up in January 1957. So the Special Committee might succeed Draft Committee. But I am not sure what is the relationship between the Special Committee and the Division. The former was an ad hoc forum, while the latter was a permanent forum with fixed members. So I feel that the Special

commerce and industry unions *before* ordering them to become members of a union. But the LDP bill provided that the government could *immediately* order nonmembers to become members of a union (*Nikkei*, 12 February 1957, p. 2). This difference was resolved in favor of the ruling party, as we will see soon.

On 15 February 1957, Jūichirō Tsukada,¹¹⁷ the chair of the PARC, informed Mikio Mizuta,¹¹⁸ the minister of the Ministry of International Trade and Industry, that the LDP bill was getting support among party members and that he would introduce it as a legislator bill into the Diet.¹¹⁹ And Tsukada asked Mizuta to give up introducing the government bill (*Nikkei*, 16 February 1957, p. 2). Mizuta had said that the government bill was proper for the issue of organizing small businesses and that the LDP bill would be inadequate for the issue due to its complexity (*Nikkei*, 12 January 1957, p. 1). But when he received the call from Tsukada, Mizuta relaxed his stance and said that he would not insist on the government bill if the LDP bill were more likely to pass the Diet. Nonetheless, Mizuta was skeptical about the LDP bill because it was more restrictive than the government bill was.

On 26 February 1957, the LDP, MITI bureaucrats and the Legislative Bureau of the Cabinet coordinated the government bill and the LDP bill through the informal decision-making procedure of prior consultation. They agreed to introduce a compromise bill into the Diet as a government bill. On the issue of compulsory membership, the compromise bill was closer to the LDP's position. It provided that the government could

Committee was intended to incorporate opinions from LDP members who were not members of the Division. And the Division was urged to take these opinions into account when it was formulate the bill.

¹¹⁷ Tsukada was a senior member of the Ishii faction.

¹¹⁸ Mizuta was a senior member of the Ōno faction.

¹¹⁹ I am not sure why Tsukada insisted to introduce the LDP draft as a legislator bill at this stage of legislative process. He could have introduced the LDP draft as a government bill. In the end, the LDP introduced its bill, after modification, as a government bill.

order nonmembers to become members when a commerce and industry union made such a request with a special vote of its plenary session (*Nikkei*, 27 February 1957, p. 2).¹²⁰

But MITI minister Mizuta opposed this agreement. He insisted that he would not introduce the compromise bill as a government bill because the compromise bill made it much easier than the government bill to compel small businesses to become union members.

Despite Mizuta's opposition, his subordinates, that is, MITI and SMEA bureaucrats, were working on the compromise bill. MITI bureaucrats responded that the bill was formulated not to impose burden on the activities of agricultural cooperatives when the LDP's Division of Agriculture and Forestry expressed a concern for the bill (*Nikkei*, 16 March 1957, p. 8). SMEA bureaucrats visited the Policy Affair Research Council to make a final explanation for the bill after the Legislative Bureau of the Cabinet had finished its examination of the bill (*Nikkei*, 20 March 1957, p. 3). Finally, the LDP's Executive Council approved the bill on 26 March 1957 (*Nikkei*, 27 March 1957, p. 2). This process shows that prior consultation allowed the ruling party to monitor the legislative work of bureaucrats and ensure that legal provisions in the bill would suit its policy preferences. And different policy preferences on the provision of compulsory membership were compromised between the ruling party and bureaucrats.

¹²⁰ Position on the issue of compulsory membership for each political player were as follows.

	Position on the issue of compulsory membership
JPLSEM	Compel all small businesses to become a member unconditionally.
LDP	The government could immediately order non-members to become a member.
Compromised	The government could order non-members to become a member of a union with the union's special resolution.
MITI	The government should order non-members to follow agreements of cooperative unions before ordering them to become a member.

In the process of formulating a bill for the issue of organization, the LDP had a difficult time in forging a consensus on the issue. One newspaper observed that “[t]his bill was unusually controversial even before its presentation to the Diet...and probably because of its highly political nature it took the bill an unexpectedly long time to be accepted within the LDP” (quoted by Kobayashi, 1973a, 57). Katsuichi Yamamoto, a LDP lawmaker, fiercely criticized the government bill on the grounds that the bill would unduly control the free economy and that it would be better to aid small businesses through reduced taxes and other financial measures (Kobayashi, 1973a, 56). He sided with the views of the Fair Trade Commission and consumer interests. But he had no impact on other LDP members. Although having had a difficulty in forging consensus on the issue, the government and the ruling party submitted the compromise bill to the Diet on 2 April 1957.

How should we interpret the compromise on the issue of compulsory membership? The provision of compulsory membership was the crux of this lawmaking process. It was the main goal of the law, and was the most controversial provision in the law. The power relationship among political actors must reveal itself in the process of achieving this compromise.

It is possible to interpret the compromise bill as close to the LDP bill because the condition for ordering nonmembers to join a commerce and industry union is weaker under the compromise bill than under the original government bill. Under the government bill, the government first had to order nonmembers to follow collective agreements of the union before ordering them to join the union. It would take time for the government to make such an order to join because it had to allow a sufficient time for

nonmembers to comply with collective agreements. Then, the government had to decide whether nonmembers indeed follow the agreements or not. There is no guarantee that the government would make a favorable decision for union members.

On the other hand, under the compromise bill, the government was required to order nonmembers to join the union if the union expressed its request for an order with its special resolution, which should be easily obtained. The effect of the compromised bill would not be different from that of the LDP bill. Thus it can be said that the ruling party overruled bureaucrats. We have seen how the LDP formulated the bill.

VII-D-2-e. Formulation at the Japan Socialist Party

The Japan Socialist Party (JSP) submitted its bill for the organization law fifty days earlier than the government did. The socialists were always concerned with small businesses. The JSP wanted to eliminate economic gaps between small and big businesses. But according to socialist doctrines, private property and ownership, whether big or small, had to go. The JSP was not sure whether small businesses should be regarded as an “ally” of the socialist revolution or as an anti-revolutionary force. Nonetheless, the JSP’s policy preferences were fairly clear: it opposed the provision of compulsory membership as proposed by the JPLSME, and wanted to strengthen a commerce and industry union’s collective-bargaining power against big businesses.

VII-D-2-f. Interest Groups

On 12 March 1957, a standing committee of the Federation of Economic Organization met with government officials and expressed their opposition to the law

(*Mainichi*, 13 March 1957). This seems to contradict the ruling party dominance model's hypothesis that interest groups should lobby the ruling party (above p. 81). Also, representatives of the Federation and the Kansai Economic Association expressed their opposition before an investigatory committee of the Diet. They thought that the strong regulation would contradict the principle of free competition (Kobayashi, 1973a, 55). Now this, too, seems to contradict the model's hypothesis that the Diet should specialize in directing a cabinet to work on a certain public issue (above p. 75). The model cannot adequately explain why the Diet held public hearings at all. According to the model, important formulation would take place in prior consultation between bureaucrats and the ruling party. There should be no reason for the Diet to investigate the issue in order to formulate the bill. In response to these concerns of big businesses, the government decided to confer upon commerce and industry unions a weaker collective-bargaining power (as compared with the JSP's version of the bill), thereby preventing them from waging a full-scale attack against the government bill.

Major newspapers were critical of the organization law on the ground that it was against consumers' interests. But their assertion of consumers' interest might be a fig leaf. Owners of the newspapers might be afraid that the legislation could enable the middlemen in the industry, who delivered newspapers to the public, to unite and demand collective bargaining against them (Kobayashi, 1973a, 56). They might be more concerned with the legislation's effect on middlemen rather than its effect on consumers.

Public interest groups opposed the organization law vehemently. The Japan Political League of Small and Medium Enterprise's main rival was the National Consumers Liaison Association [*Zenkoku Shōhisha Dantai Renrakukai*] (NCLA). NCLA

thought that the JPLSME's draft was an "unreasonable infringement upon the consumers' interest" (Kobayashi, 1973b, 78). The Housewives Federation [*Shufuren*], the General Council of Trade Unions of Japan [*Sōhyō*], the Congress of Industrial Unions of Japan [*Sanbetsu*], and the School Livelihood Cooperatives [*Gakkōseikyō*] joined the NCLA in anti-JPLSME campaigns.

VII-D-3. Mobilization

Advocacy and opposition to the organization law were very intense in the process of lawmaking. Kobayashi observed that the Liberal Democratic Party and Japan Socialist Party were "bombarded by interest group activities for and against the present legislation" (1973a, 58). The Japan Political League of Small and Medium Enterprise (JPLSME) actively mobilized to support the bill. According to Kobayashi, it "created human waves of 300,000 members at very important stages of legislation and sent a large number of petitioners to the Diet, especially the house Commerce and Industry Committee" (1973b, 70). As many as one hundred people were mobilized every day, went to the buildings in Nagata that housed Diet members' offices, occupied the spectators' seats in the various committee meetings in the Diet, and held emergency meetings of national representatives around the office building for Upper House members. Kenkichi Matsuzaki, director of the JPLSME's Policy Bureau, said that political pressure was directed at the Diet and the major parities, not at the bureaucracy, because he thought it was not effective to lobbying bureaucrats (Kobayashi, 1973b, 51).¹²¹ The Small and

¹²¹ Kobayashi did not explain why Matsuzaki thought it ineffective to lobby bureaucrats. Nor could I find any reason for this during my research.

Medium Enterprise Promotion Council did not appear to be a “direct target of the interest-group activities” (Ibid.).

The National Consumers Liaison Association developed detailed and various action plans to oppose the bill for the organization law (Kobayashi, 1973b, 78-82). The pamphlets, which contained sample letters of petition as well as the names and addresses of the people to whom the petition should be sent, were distributed to members of groups opposing the bill. The NCLA talked to the rank and file of the Japan Socialist Party. And it staged a wide demonstration against the bill on 26 February, 17 April, and 5 November 1957.

Both the JPLSME and the NCLA fought to the hilt. But the power of the NCLA could not surpass that of JPLSME. One of indicators of the NCLA’s weakness is money: the NCLA marshaled \$3,611 for its campaign in 1957, while the JPLSME had \$2,778,000 (Kobayashi, 1973b, 81). But Kobayashi opined that it was not so much lack of money but the difficulty in uniting consumers that was fatal to the NCLA’s cause (Ibid.).

VII-D-4. Decision

We have seen how the issue emerged, how the ruling party and government formulated the bill, and what policy preferences of the Japan Socialist Party and interest groups were. We have also seen what kind of mobilization happened in the process. The focus of the process has now moved to the Diet. Let us see what happened in the Diet. Since the LDP had 297 seats out of 467 seats in the Lower House, which was an overwhelming majority (above p. 109), the ruling party should have an easy time to pass the bill. Did it?

VII-D-4-a. The 26th Ordinary Diet in 1957

The bill was introduced by the Kishi administration during the 26th ordinary Diet session on 5 April 1957. The LDP and the JSP disagreed over the issues of compulsory membership and collective bargaining. Since the LDP enjoyed an overwhelming majority in the Lower House, it could ram through the bill if it so wished. But the LDP did not do that. Instead, the LDP and the JSP selected a bipartisan subcommittee to work out a compromise bill. Major modifications were as follows.

- 1) the government should consult with the Small and Medium Enterprise Stability Council [*Chūshō Kigyō Antei Shingikai*] when it set up a criterion for determining the existence of depression, a condition required to form a commerce and industry union;
- 2) the obligation of big businesses should be expressed more vigorously to respond to a commerce and industry union's request for concluding collective agreements;
- 3) the provision on the acknowledgment of non-members should be included as an exception to the compulsory membership;
- 4) a commerce and industry union must consult with the Stability Council when it was to change its collective agreements on adjustment of business activities [*chōsei kitei*];
- 5) the provision on the order to restrict new facilities would be included;
- 6) the provision on the filing of complaints against a membership order,¹²² a regulation order, a new facility restriction order, and a commerce and industry union's adjustment agreement, would be included; and
- 7) an enterprise cooperative small union [*jigyō kyōdō shō kumiai*] and a fire insurance cooperative union [*kasai hoken kyōdō kumiai*] would be covered by the law.

[Source: MITI, 1991a, 44].

The Japan Socialist Party accepted the government bill in substance while the Liberal Democratic Party weakened its position on the compulsory membership clause. The

¹²² It is a government order for non-union members to join a union.

modification 3) would mitigate the effect of the compulsory membership. The modifications 1), 4), and 6) would add objectivity and fairness to the implementation of this law by letting a neutral third party be involved in the process and allowing aggrieved parties to complain to administrative courts. The modifications 5) and 7) were the JSP's ideas (MITI, 1991a, 43). On 7 May 1957, the jointly modified bill was passed in the Lower House, and sent to the Upper House.

The ruling party dominance model cannot adequately explain why the LDP accepted the JSP's demands to modify the bill. Since it maintained a majority in the Diet, the LDP could forcibly pass the bill if it so decided. Mochizuki pointed out that the rule of unanimity and a short period of the Diet session gave opposition parties some power in the Diet (above p. 54). But these factors do not seem to me to provide a sufficient reason for the ruling party to make compromise with opposition parties. Indeed, as we will see in the next case study, the ruling party rammed through a bill in the Diet. Is the model's inability to explain why the ruling party compromised in the Diet at all a fundamental defect of the model or a limitation of the model? I will return to this issue in Assessment of Hypotheses (below p. 216).

Although the Lower House passed the bill, the bill came under fire in a plenary session of the Upper House. Not only socialist members but also LDP members started to criticize the modified bill. The socialists were opposed to the compulsory membership provision. And LDP members who were sympathetic to the Ministry of Finance demanded a revision of the provision on fire insurance cooperative union that the ministry objected (Kobayashi, 1973a, p. 59). Although the House extended the session for one day, disagreements were not ironed out. In the end, the bill could not pass during

the 26th session that closed on 19 May 1957. The 26th ordinary Diet was called a “Small Business Diet”, and thirteen bills relating to small business policy were introduced and discussed (MITI, 1991a, 44). But the bill for the organization law did not pass. Nor did the bills for subsidy and retail industry. *Nikkei Shimbun* characterized the Diet as “a complete disappointment [*kanzen na kanban daore*]” (*Nikkei*, 20 May 1957, p. 1).

VII-D-4-b. The 27th Extraordinary Diet in 1957

The Diet began its 27th extraordinary session on 1 November 1957, and restarted the deliberation of the bill. Again the Liberal Democratic Party and the Japan Socialist Party could not agree with each other. The JSP demanded twelve modifications to the bill, and the LDP rejected all demands (*Nikkei*, 5 November 1957, p. 1; *Nikkei*, 6 November 1957, Evening ed., p. 1). The deliberation of the bill at the Commerce and Industry Committee of the Upper House was unproductive, and was suddenly closed by the chair of the committee on November 9. The chair was a socialist member.¹²³ Chairman Shinichi Kondō suddenly closed a session when he noticed that LDP members tried to propose a motion to terminate the deliberation.¹²⁴ Kondō declared that he would not open a session until November 11. Angry LDP members threatened to report the bill immediately to the plenary session¹²⁵ of the Upper House if socialist members did not opened the session and finish the deliberation on November 11.

¹²³ The Commerce and Industry of the Upper House was composed of one chairman, four directors, and fifteen members in 1957. Two directors and eight members were LDP members, thereby making the LDP a majority party. But the chair was a socialist. It was said that there was an informal rule until the 1960s that chairmanships of Diet committees should be distributed between the LDP and the JSP.

¹²⁴ Kondō closed the session under the article 52 of the Upper House Rule.

¹²⁵ Article 56-3 of the Diet Law allows each House to ask its committees to report the bills that are under deliberation to the plenary session of the House when necessary. Thus the LDP can avoid a committee deliberation under this article.

The LDP's secretary general Kawashima and chair of Diet Strategy Murakami started to negotiate with the JSP's counterparts to overcome the stalemate on November 11. They agreed to extend the current Diet session for two days. Regarding the bill, they agreed to finish the deliberation at the committee on November 12, and pass it at the plenary session of the Upper House on November 13.

Deeply divided, the JSP's leaders could not issue a party voting order on this issue. Thus socialist members in the Upper House voted independently. On November 13, eleven socialist members retreated from the chamber when the bill came to a vote (although the bill passed with 124 ayes and 67 nays). The JSP's chairman Suzuki and top leaders of the party had planned to use the opposition to the bill as a plot to attack the government until the very end of the Diet session, but to pass it in the end. Contrary to their scenario, a left-wing group of socialists,¹²⁶ emboldened by consumers' opposition, continued to oppose the bill to the end. *Nikkei* speculated that the Upper House members afforded to engage in "purely theoretical arguments" in the deliberation because they were relatively immune from election concerns¹²⁷ (*Nikkei*, 14 November 1957, p. 1).

VII-E. Summary

The case study of the legislative process of enacting the Small and Medium Enterprise Organization Law has shown that the ruling Liberal Democratic Party was the most influential in the process. The party overruled the bureaucrats' skepticism toward compulsory membership. The Small and Medium Enterprise Agency, the Ministry of International Trade and Industry, the Fair Trade Commission, the Ministry of Finance,

¹²⁶ They were mainly supported by the Japan Teachers Union [*Nikkyōso*] and All Labor Soviets [*Sōhyō*].

and the Legislative Bureau of the Cabinet were all skeptical of the idea that the government should order small businesses to join organizations. But they could not persuade the ruling party to discard the idea.

The Japan Political League of Small and Medium Enterprises initiated the enactment of the law, and succeeded in including the provision that allowed the government to order nonmembers to join commerce and industry unions. But it failed to include its much stronger version that would force by law all small businesses to become union members. The law was far weaker than what the group wanted. Thus the most conspicuous interest group did not capture the LDP. The effect of the Small and Medium Enterprise Promotion Council was not great. The government seemed not to rely on the council report when it wrote its bill, and the government bill was overruled by the LDP.

Prime Minister Kishi was not so successful in appointing his confidants to important positions in policymaking process. The chair of the Policy Affair Research Council (PARC) of the party and minister of the MITI were occupied by members from Ishii, Miki, Ōno and Ikeda factions that did not support him in the LDP's presidential election of 1956. But did his failure to appoint his loyalists to the PARC and the MITI have any effect on the outcome of the lawmaking process? Can we say that the final text of the bill might have been more restrictive and closer to the JPLSME's version had Kishi fielded the posts with his loyalists given Kishi's policy preference for government intervention into economy (above p. 110-1)? It is hard to tell. However, if the effect of the appointment power were hard to recognize, the ruling party dominance model's

¹²⁷ Since a member of the Upper House serves for six years, compared with four years for a member of Lower House, Upper House members may worry less about the next election.

proposition that party leaders use the appointment power to control the legislative activities in the Diet (above p. 49-50) would be weakened.

Also an active role of Prime Minister Kishi in the policymaking has not been confirmed in the case study. According to the ruling party dominance model, the prime minister should coordinate different policy preferences among party members (above p. 78). But I could not find any active role of Kishi when, for example, some LDP members in the Upper House were opposed to the provision on the fire insurance cooperative union. Nor could I find his active role in the process in which the ruling party formulated the bill. Instead, most important decisions, such as the one on the issue of compulsory membership, were made in prior consultation between the ruling party and bureaucrats. Was his reliance on the party in the policy process a result of his weak standing in the party? Although I have elaborated his standing in the factional power relationship (above pp. 109-110), the case study is insufficient for me to answer this question convincingly.

The political power structure of the Diet did not seem to perfectly determine the outcome of policymaking process. Since the LDP maintained a majority in the Diet, there should have been no compromise between the ruling party and opposition. But the JSP moderately succeeded in inserting their policy preferences into the legislation. Although the JSP filibustered the process, the LDP could have stepped aside the obstruction, i.e., to report the bill directly to the plenary session by law if they wished. But the LDP did not use the power, and allowed the JSP to procrastinate. The case study is not able to explain why this was allowed. Nonetheless, the LDP passed its bill in the next Diet session anyway.

Finally, let me compare how closely the statist, corporatist, pluralist and ruling party dominance models have predicted the policy process in this case study. The pluralist model fares well because the final text of the bill reflected the policy positions of the Japan Socialist Party. The corporatist model does not score well because I could not find any stable consultative relationship between bureaus and peak organizations. I cannot say that Ayukawa's Japan Political League of Small and Medium Enterprise was a peak organization of small businesses. In the process, the ruling party and bureaucrats disagreed on the compulsory membership provision. The compromise on the provision was closer to the LDP's position. Thus the ruling party dominance model better predicted the outcome. But the fact that the compromise took place at all suggests that bureaucrats had some power in the process. On this account, the statist model has a predictive power. In sum, it is hard to tell which model, the statist or ruling party dominance model, scores better in this case study.

VIII. Case 2: The Small and Medium Enterprise Basic Law of 1963

The 1960s were a decade in which Japan enjoyed a high economic growth. The most famous government economic policy during the decade was Prime Minister Ikeda's "Doubling Income Plan [*Shotoku baizō keikaku*]". Ikeda vowed to double people's income in ten years. Under the plan, the government tried to revitalize stagnant industries such as agriculture and small business sectors. The Small and Medium Enterprise Basic Law, Law No. 154 of 1963, was part of this large economic plan.

Since all major political actors were in favor of establishing a basic law for small businesses, the lawmaking process should have been smooth. But different opinions emerged within the Liberal Democratic Party regarding the pace of the enactment. Although top party leaders wanted a careful preparation, the rank-and-file of the party wanted to enact it as soon as possible. Then top leaders yielded to the pressure of the rank-and-file, and directed bureaucrats to work on a bill.

Also the LDP and opposition parties had different ideas about what the basic law should be. Opposition parties advocated stronger protective measures for small businesses in the bill, while the LDP was trying to strike balance between the protection of small businesses and the competitive principle of the market. Opposition parties were not able to forge a unified front against the ruling party in this legislative process. Believing the LDP's policy lineup was better the status quo, the Democratic Socialist Party, a splinter of the Japan Socialist Party, was more eager to cooperate with the LDP. On the other hand, the Japan Socialist Party maintained a hard stance against the LDP

during the whole process and ended up boycotting a deliberation in the Diet. Nonetheless, the LDP forcibly passed the bill in the Diet despite the opposition by the socialists.

VIII-A. Economic Backgrounds

The Japanese economy grew fast in the 1960s. The average yearly growth rate was 10.4 percent during the decade.¹²⁸ Salaries, too, grew fast. The average yearly increase rate of salary was 11.2 percent during the same decade.¹²⁹ With the expanding purse, naturally, households and companies enjoyed an increasing consumption and investment. The average yearly increase rate of consumption in the private sector was 9.2 percent during this decade.¹³⁰ Overall, the government seemed to have managed the national economy very well.

However, this did not mean that small businesses had no worries. Between the second quarter of 1957 and the first quarter of 1958, industrial production and wholesale prices fell by 10 percent (Calder, 1988, 87). Between 1959 and 1961, the number of independent and family businesses dropped by 620,000 (Ibid., 342). Trade liberalization,¹³¹ the shortage of labor, and sales competition between big and small

¹²⁸ The yearly growth rate of the national economy during the 1960s.

Year	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	Ave.
GDP %	12.1	11.5	7.7	10.1	9.8	6.2	11.2	10.9	12.8	12.1	10.4

[Source: Economic Planning Agency, 1994]

¹²⁹ The increase rate of salary during the 1960s.

Year	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	Ave.
Salary	6.9	12.9	8.9	11.1	10.5	8.6	11.4	12.2	13.7	16.0	11.2

[Source: Economic Planning Agency, 1994. The figures are the percentage of increase against the previous year's salary.]

¹³⁰ The increase rate of final consumption [*saishū shōhi shishutsu*] of the private sector (households and enterprises) during the 1960s.

Year	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	Ave.
Consumption	10.4	10.2	7.1	9.9	9.5	6.5	10.3	9.8	9.4	9.8	9.2

[source: Economic Planning Agency, 1994]

¹³¹ In 1959, GATT advised Japan to liberalize its trade on the basis of the nation's transition to IMF Article 8 nation.

businesses worsened business environment for small businesses. The Small and Medium Enterprise Basic Law was the LDP's attempt to respond to this situation by modernizing small businesses.

In order to realize modernization policies under the Basic Law, the government enacted ten laws. For example, the Small and Medium Enterprise Promotion Fund Subsidy Law [*Chūshō Kigyō Shinkō Shikin tō Jyosei Hō*], Law No. 71 of 1963, was passed on 31 March 1963. The Law was aimed at providing funds to modernize cooperative facilities for small businesses as well as facilities of individual firms. The Small and Medium Enterprise Modernization Promotion Law [*Chūshō Kigyō Kindaika Sokushin Hō*], Law No. 68 of 1963, was to allow relevant ministries to designate industries that especially needed modernization, to write a modernization plan for such industries, and to advise small businesses to implement the plan. Moreover, the Small and Medium Enterprise Investment Facilitation Company Law [*Chūshō Kigyō Tōshi Ikusei Kabushiki Kaisha Hō*], Law No. 101 of 1963, was to set an investment company in Tokyo, Nagoya and Osaka to strengthen the capital funds [*jiko shihon*] of an individual enterprise.

VIII-B. The Major Policies in the Small and Medium Enterprise Basic Law of 1963

The Small and Medium Enterprise Basic Law of 1963 is the first and most comprehensive law for small business policy. A basic law differs from ordinary laws in that the former is to set a catalog of policies in the given issue area while the latter is to make each policy more concrete. Examples of basic law were the Education Basic Law [*Kyōiku Kihon Hō*], Law No. 25 of 1947, the Atomic Power Basic Law [*Genshiryoku*

Kihon Hō], Law No. 186 of 1955, and the Agriculture Basic Law [*Nōgyō Kihon Hō*], Law No. 127 of 1961.

The essence of the Small and Medium Enterprise Basic Law was expressed in its preamble. There are two points in it. One is the recognition that there were enterprise gaps [*kigyō kakusa*] between big and small businesses regarding productivity, enterprise income [*kigyō shotoku*], labor wages and others. The preamble stated that these socioeconomic disadvantages constrained the business activities of small businesses. The other point is that business skills and expertise for small businesses to survive in markets were changing due to the recent economic growth. The preamble urged the government to provide public policies that enabled small businesses to respond to these changes. The law set up a catalog of policies that the government was obliged to take. There were six categories of policy.

Chapter 2¹³² of the Basic Law obligated the government to modernize plants and equipments (article 9), to improve technology (article 10), to make management efficient (article 11), and to increase the economies of scale by mergers and joint ventures (article 12) for small businesses. Article 13 urged the government to help small business entrepreneurs to organize trade associations and cooperatives in order to implement these goals. Also, article 16 urged the government to improve the labor-management relationship, increasing the welfare of employees, and providing job training and employment information.

Article 17 allowed the government to help small businesses to voluntarily coordinate their business activities in order to prevent excessive competition among them. Article 18 obliged the government to improve subcontract relationships between makers

(usually big businesses) and suppliers (usually small businesses). Especially, the government was urged to prevent delayed payments to subcontractors, and to ensure that small businesses could maintain their business autonomy in such a relationship.

When big businesses advanced into industries traditionally occupied by small businesses, big businesses were likely to take away job opportunities from small businesses. With their business negatively affected, small businesses started to complain, and conflict between big and small businesses emerged. In such an incident, article 19 obligated the government to set up a deliberation forum to resolve conflicts between big and small businesses. Article 20 urged government agencies to utilize small businesses when they were to purchase goods and services.

Article 21 was aimed at helping small businesses to expand their overseas sales. And article 22 allowed the government to rescue small businesses when a flood of competitive foreign goods threatened the management of small businesses. The government could adjust tariffs and impose import quotas if emergencies so required.

Article 23 urged the government to pay a special attention to very small businesses¹³³ when implementing policies. To provide cash and credit for small businesses, article 24 obliged the government to strengthen public financial institutions and guide private financial institutions to lend small businesses. Article 25 urged the government to provide tax benefits for small businesses.

Central and local governments were obligated to work together to implement the above policies (article 26). The government was urged to develop organizations for small businesses (article 27). To make these policies more concrete, the Small and Medium

¹³² Chapter 2 of the Basic Law was composed of eight articles between Article 9 to Article 16.

Enterprise Policy Council was established under the cabinet (article 28).¹³⁴ The council was composed of twenty members, and the members were to be appointed by the prime minister (article 30). The council could ask relevant agencies to provide information in order to conduct survey and discuss policy matters (articles 29, 31).

VIII-C. Political Backgrounds

Having reviewed the Japanese economy of the 1960s and major policies of the Basic Law, I would like to elaborate the political background of the law. The Small and Medium Enterprise Basic Law was established in 1963. The bill for the law was submitted by the Ikeda cabinet on 7 February 1963, and passed the Lower House on June 26 of the same year. What was the balance of power between the ruling Liberal Democratic Party and opposition parties in the Diet in 1963? Did Prime Minister Ikeda have a strong power base in the party at the time? I will elaborate the power balances in the Diet and the factional balance in the Liberal Democratic Party.

VIII-C-1. The Diet

The Diet in 1963 was controlled by the LDP. The 29th General Elections were held on 20 November 1960, and a power structure that the elections created in the Diet remained the same in June 1963 when the Lower House passed the bill. The elections gave the LDP 296 seats, and the Japan Socialist Party 145 seats. The Japan Communist

¹³³ A very small business was defined as follows: (1) Less than 20 employees for manufacturing enterprises, and (2) less than five for commerce and service enterprises.

¹³⁴ Later, the Council was transferred from the cabinet to the Ministry of International Trade and Industry.

Party got 3 seats. The Democratic Socialist Party¹³⁵ got 17 seats. 6 seats went to the unaffiliated.¹³⁶ Since it enjoyed an overwhelming majority in the Diet, the LDP should have had an easy time in passing its bill in the Diet. And, according to the ruling party dominance model, there is no need for the ruling party to make compromise with opposition parties.

VIII-C-2. The Liberal Democratic Party

There were nine factions in the LDP in 1963.¹³⁷ The LDP had the 6th presidential election on 14 July 1962. Hayato Ikeda got 391 votes, while his rival Eisaku Satō got only 17. So Ikeda looked very powerful, Satō very weak. But according to Seizaburo Satō and Tetsuhisa Matsuzaki, Eisaku Satō marshaled 46 of his men in the Lower House and 45 in the Upper House in 1963, while Ikeda had 50 men in the Lower House and

¹³⁵ The Democratic Socialist Party was split from the JSP in January 1960. Private sector labor unions supported the DSP, while public sector labor unions supported the JSP (Mochizuki, 1993, 181).

¹³⁶ The result of the 29th General Election of 20 November 1960

Political Party	Numerical strength in the Diet
Liberal Democratic Party	296
Japan Socialist Party	145
Democratic Socialist Party	17
Japan Communist Party	3
Total	467

[Source: McNelly, 1972, 123]

¹³⁷ The Relative Numerical Strength of LDP Factions in December 1963

Factions	Relative Strength
Ikeda	16
Kōno	16
Satō	16
Kishi	8
Miki	12
Ōno	10
Ishii	4
Kawashima	7
Fujiyama	7

[Source: Leiserson, 1968, 777. The figures are a percentage of each faction members against all LDP Lower House members in December 1963]

only 10 in the Upper House (1986, 243). Thus Eisaku Satō appeared slightly stronger than Ikeda.

With many free-floating factions and a strong rival like Satō, Ikeda, like his predecessor Kishi, might not be a dominant actor. He needed allies desperately. Ikeda maintained a majority in the party by getting supports from the Kōno, Miki, and Ōno factions. If his cabinet rested on the support from the three factions, he would find it difficult to coordinate among the three factions and his own faction in the policymaking process. Next, let us look at Ikeda's economic policy and his appointments.

VIII-C-3. The Prime Minister: Hayato Ikeda

Ikeda served as prime minister from 19 July 1960 to 9 November 1964 (Curtis, 1999, 246). There is always a famous political slogan for each prime minister. For Kakuei Tanaka, it was "*Retto Kaizō Ron* [Theory for Reforming the Archipelago]". For Hayato Ikeda, it was "*Shotoku baizō keikaku* [Doubling Income Plan]". The phrase was his 1960 pledge that he would double the people's income in the next ten years.

He knew that this slogan was appealing to the electorate (Masumi, 1985, 108). He used the similar phrase "*Gekkyū nibai ron* [Doubling Salary Theory]" in Hiroshima when the Upper House elections were held in February 1959 (MITI, 1991b, 21). When he became prime minister in 1960, he just rephrased it. Although Ikeda made the pledge, a majority of economists and opinion leaders were skeptical of his pledge because they thought that the Japanese economy was "shallow" and weak (MITI, 1991b, 21-22). It was Osamu Shimomura who provided a theory for his pledge. According to Shimomura, the Japanese economy had acquired a stronger supply capacity [*kyōkyū nōryoku*] in the

past ten years. If the current level of investment continued and effective demands were provided, the Japanese economy could grow at ten percent per year without inflicting inflation. He boldly claimed that “the Japanese economy is at the moment of historical rise” against the pessimistic mood of the time.¹³⁸

To realize his pledge, Ikeda had to cope with two sectors that might hinder the nation’s economic growth: agriculture and small businesses. In his plan, the small business sector was recognized as occupying an important position in the production and distribution of the national economy and as important exporters. But the plan also pointed out that the modernization of the sector was slow. Therefore it called for a rapid modernization by listing as goals the correction of enterprise gaps [*kigyō kakusa*], the optimization of scale [*kibo no tekiseika*], the modernization of facilities, the increase of capital fund [*jiko shihon no jyūjitsu*], the improvement of business environment, and the modernization of the labor relationship [*rōdō kankei no kindaika*]. Due to the major publicity for this plan, it was expected that he would strengthen public policies in small business and agriculture sectors by formulating a basic law.

Ikeda’s appointments to the LDP’s posts were as follows.

Table 8-1: Ikeda’s Appointments to Party Posts

Position	Appointments	Relationship with Ikeda
Secretary general	Maeo	Ikeda faction
Chair of Executive Council	Akashiro	Kōno faction (ally)
Chair of Policy Affair	Miki	Miki faction (ally)
Research Council	Tanaka	Satō faction (rival)
Chair of Diet Strategy	Sonoda	Fukuda faction (enemy)

¹³⁸ Shimomura was a researcher at the Ministry of Finance. For his theory and arguments, see “*Keizai seichō jitsugen no tameni* [For the Realization of Economic Growth]” (September 1958) and “*Nihon Keizai no Kichō to sono seichōryoku* [The Basic Trends of the Japanese Economy and its Growth Capability]” (February 1959).

[Source: Satō and Matsuzaki 1986]

Ikeda appointed Shigezaburo Maeo as a secretary general, and Maeo was a senior member of the Ikeda faction. Akashiro was appointed as the chair of the Executive Council, and he was a senior member of the Kōno faction that supported Ikeda in the party presidential election of 1962. Sunao Sonoda was appointed as the chair of the Diet Strategy, and he was a member of the Fukuda faction. Takeo Miki became a chair of the Policy Affair Research Council, and he was head of his own faction. Kakuei Tanaka who was a senior member of the Satō faction succeeded Miki. Ikeda appointed Satō, head of his own faction, as the minister of the Ministry of International Trade and Industry (MITI).

However, Ikeda did not fare better than Kishi in appointing his loyalists to important positions. He got the secretary general, the Executive Council and the MITI. But PARC and the Chair of Diet Strategy went to his rival factions. Did his failure to secure these posts affect his ability to control the policymaking process? Let us see the legislative process for the law.

VIII-D. Law-Making Process

VIII-D-1. Initiation

As in the case of the Small and Medium Enterprise Organization Law of 1957, the Japan Political League of Small and Medium Enterprise (JPLSME) took an initiative for the establishment of the Basic Law. They made public their draft for the basic law in 1960. Also the National Federation of Small Business Association [*Chuōkai*] decided to

formulate a basic law in 1960. They published their version for the basic law in the next year. Tatsuo Arita observed that the movement to enact the Agriculture Basic Law of 1961 ignited a movement for the establishment of a basic law for small business (1997, 45; SMEA, 1968, 1).

In April 1961, in response to the public's rising interest, Ikeda met with the LDP's leaders to ask them to formulate a basic law for small businesses. The LDP accepted Ikeda's request and immediately started a formulation (MITI, 1993, 250). On 8 August 1961, the Executive Council decided to set up the Research Committee for the Basic Issues of Small and Medium Enterprise [*Chūshō Kigyō Kihon Mondai Chōsakai*].

On 10 August 1961, Ikeda also asked Satō, MITI minister, for his opinion about the basic law at a cabinet meeting. Although he favored the establishment of the basic law, Satō did not think it possible to do that in a half or one year. He said that a long and careful preparation was necessary for its formulation (*Nikkei*, 10 August 1961, Evening ed.).

The Small and Medium Enterprise Agency (SMEA), responding to Satō's direction, set up two discussion groups in September 1961. One group was formed in the SMEA, composed of several young bureaucrats in their late twenties and thirties.¹³⁹ The other was an ordinary deliberation council [*shingikai*], composed of selected members from the private sector.¹⁴⁰ The council met on September 26 and October 27. It had two opinions about the basic law. One was to have discussion in order to formulate the basic law. The other was to conduct surveys and discussions to decide whether the basic law

¹³⁹ This group was called as Chōshō Kigyō Kihon Seisaku Shingishitsu [the Small and Medium Enterprise Basic Policy Unit].

¹⁴⁰ This group was called as Chūshō Kigyō Shinkō Shingikai Sōgō Bukai [the Overall Subcommittee of the Small and Medium Enterprise Promotion Council].

should be formulated at all. The outcome of the two meetings was that the formulation of the basic law should not be hastened; the council chose a slow and careful approach to enactment (MITI, 1993, 253).

VIII-D-2. Formulation

VIII-D-2-a. Formulation by Opposition Parties

In August 1961, the Japan Socialist Party (JSP) and the Democratic Socialist Party (DSP) presented their drafts for the basic law, while the LDP, having a difficulty in forming consensus, formulated their final draft in February 1962. The basic theme of the socialist bill for the basic law was the democratization of the economy [*keizai no minshuka*], while that of the DSP's bill was to let everybody join the middle class [*zenkokumin no chūsan kaikyūka*] by the modernization and improvement [*taishitsu kaizen*] of small businesses.

The JSP's bill included 79 articles in 11 chapters, while the government bill had 33 articles in 7 chapters. The bill provided not only modernization policies but also elaborated welfare policies for employees. Also the bill included articles to facilitate the formation of cooperatives, to eliminate difficulties caused by the activities of big businesses, and to facilitate the unity among small businesses, labor and agriculture.

The socialist bill mainly differed from the government bill on the issues of domain coordination [*bunya chosei*], subcontracting [*shitauke*] and government procurement. On these issues, the JSP made much clear resolve to protect small businesses. On the issue of domain coordination, the JSP's bill was to designate

industries where the advancement by big businesses was likely to oppress small businesses, and to regulate the activities of big businesses in such industries, while the government only said it would prevent an unjust invasion of small business interests by big businesses. On the issue of government procurement, the JSP was to mandate the government to earmark a certain amount of its purchase of goods and services for small businesses each year, while the government bill called for making sure business opportunity for them. As for subcontracting, the JSP called for liberating small businesses from the servitude imposed by big businesses and freeing small businesses from the restraints caused by the dominant position of big businesses. The socialists also wanted to upgrade the Small and Medium Enterprise Agency to the Ministry of Small and Medium Enterprise [*Chūshō Kigyō Shō*].

VIII-D-2-b. Formulation at the Liberal Democratic Party in 1961

Ruling party politicians were divided on the issue of how fast the basic law should be enacted. Although Ikeda initiated the process of establishing the Basic Law, he was not in a hurry to enact it. Neither was Sato. Sato thought that a survey on the state of small businesses must be conducted first, and said that the government had no intention to introduce the bill into the 40th Ordinary Diet of 1962.¹⁴¹

However, on 17 August 1961 Kakuei Tanaka, the chair of the Policy Affair Research Council, announced that a bill for the basic law would be introduced into the 40th Ordinary Diet. He also said that the SMEA would be upgraded to a ministry (*Nikkei*, 18 August 1961, p. 1). He attended a meeting of the LDP's Research Committee, and urged its members to introduce the bill as soon as possible (*Nikkei*, 29 August 1961, p. 3).

The Research Committee agreed with him. It planned that the basic law would be declaratory and would list up basic policies, such as the modernization of management and facilities, finance, and the optimization of conditions of business transactions. But there was a skeptical view about the upgrading of the SMEA because turf battles could arise between the SMEA and the Ministry of International Trade and Industry. (*Nikkei*, 27 August 1961, p. 1).

The reason why Tanaka favored the early establishment of the basic law was the coming elections. The elections for the Upper House were scheduled for July 1962. Tanaka thought that LDP candidates would be better off if the party could present its platform for small business policy. Besides, the Japan Socialist Party and the Democratic Socialist Party had already published their plank for the basic law.¹⁴² It was politically unsound that the ruling party did not have the policy platform when the opposition parties did.

In September 1961, the Research Committee formally decided to introduce the bill in the 40th Ordinary Diet. It also decided to set up four subcommittees for finance, subcontract, employees, and organization.¹⁴³ It scheduled public hearings with several industries and interest groups from September 11 to the end of the month, and finished the formulation of the draft by the end of 1961. Regarding the upgrading of the SMEA, it found that the majority of its members favored the upgrading of the agency (*Nikkei*, 9 September 1961, Evening ed., p. 1).

¹⁴¹ The 40th Ordinary Diet was open from 9 December 1961 to 7 May 1962.

¹⁴² The DSP announced its draft on 13 August 1961. Main points of their draft were: (1) the establishment of a ministry for small business, (2) the designation of industries for small business in order to prevent the advancement of big businesses, (3) earmarking 30 % of Fiscal Investment and Loan Program [*zaisei tōyūshi*] for small businesses, and (4) earmarking a certain percentage of the private sector's loan for small businesses (*Nikkei*, 14 August 1961, p. 1).

Besides the Research Committee, a group of LDP lawmakers, called the LDP League of Diet Members for Promoting Commerce and Industry [*Jimin Shokogyo Shinko Giin Renmei*], published a summary of the draft for the basic law in October 1961. Its major points are as follows:

- 1) The definition of a small business: below 50 million yen, or below 300 employees;
- 2) A government survey and report on the state of small businesses;
- 3) A certain percentage of finance in the private sector should be allocated to small businesses;
- 4) The autonomy¹⁴⁴ of small businesses should be maintained in subcontract relationship; and
- 5) The upgrading¹⁴⁵ of the Small and Medium Enterprise Agency.

Incorporating some ideas of the League of the Diet Members, the Research Committee wrote up a draft for the basic law by the end of 1961 or January 1962. Recognizing the competition principle of free economy, the draft called for the modernization and strengthening of small businesses. It was composed of twenty articles. Major policies proposed in the draft was as follows:

- 1) The definition of a small business: below 50 million yen in capital fund or below 300 employees for a manufacturing enterprise (below 50 employees for a commerce and service enterprise);
- 2) Basic survey: an annual report on the state of small businesses to the Diet;

¹⁴³ These divisions developed into five divisions, that is, finance/tax, organization, modernization, labor/welfare, and commerce/very small businesses by October 1961 (*Nikkei*, 25 October 1961, p. 3).

¹⁴⁴ To prevent big businesses from imposing harsh contract conditions on small businesses in their subcontracting relationship.

¹⁴⁵ To make the Small and Medium Enterprise Agency a Department of Small and Medium Enterprise.

- 3) Domain coordination: to coordinate business activities between small businesses and big businesses;
- 4) Modernization: renewal of facilities;
- 5) Conversion: to facilitate a conversion to new enterprise or to help workers to acquire new jobs;
- 6) Very small businesses: special consideration;¹⁴⁶
- 7) Subcontracting: small businesses should be able to maintain fair profit and autonomy in a subcontract relationship;
- 8) Retail: small retailers should be able to ask business coordination with big retailers;¹⁴⁷
- 9) Government procurement: earmarking a certain percentage of the government purchase of goods and services for small businesses;
- 10) Finance: to optimize loan conditions and to strengthen government financial institutions for small businesses;¹⁴⁸
- 11) Capital: to increase the capital fund [*shihonkin*] and to insure company bonds;¹⁴⁹
- 12) Tax: to optimize tax burdens for small businesses through national and local taxes;¹⁵⁰

¹⁴⁶ See Appendix: 10. Very Small Enterprise.

¹⁴⁷ An example of the retail policy is the Big Store Law, Law No. 109 of 1973, which urges big retailers to take small retailers' business concerns into account when they open a big store in a neighborhood where many small retailers are concentrated. According to this law, small retailers can reduce the sale space of a big store or shorten its business hours.

¹⁴⁸ Private banks are reluctant to lend money to small businesses and, when they lend, lend money to them with higher interest rates than they lend to big businesses because the financial strength of small businesses is generally considered weak. A government tries to correct this situation by urging private banks to lend money to small businesses and setting up its financial institutions that lend money to them with low interest rates. See Appendix: 12. Finance and Surety.

¹⁴⁹ An example of this policy is the Small and Medium Enterprise Investment Facilitation Company Law, Law No. 101 of 1963.

¹⁵⁰ For example, small businesses have been exempted from paying consumption tax [*shōhizai*] if their overall sale is less than 10 million yen (\$100,000.00 with an exchange rate of one dollar equaling 100 yen). This exemption profits small businesses because they need not transfer the money that customers have paid as the consumption tax. The exemption is justified because computing tax amount that small businesses owe a government is complicated and burdensome for small businesses.

- 13) Organization: to facilitate enterprise cooperation and coordination in production and marketing in order to increase the stability of small business management;¹⁵¹ and
- 14) The establishment of the Small and Medium Enterprise Policy Council in the cabinet to discuss major policies and to render opinions.

It merits noting that the LDP's policy ideas were similar to those in the Basic Law. The Basic Law's major policies such as modernization, subcontract relationship and business opportunity (above p. 126-7) are the same as the LDP's policy ideas (3), (4), (6), (7), (8), (9) and (13). The case study cannot confirm where LDP drafters got these policy ideas from; they might get the ideas from small business organizations. But it shows that politicians were as much policy-wise as bureaucrats were.

VIII-D-2-c. The Decision to Introduce the Bill to the 40th Diet in 1962

In February 1962, an opinion that the bill for the basic law should be introduced into the current 40th Ordinary Diet grew stronger in the LDP. Proponents for quick enactment wanted to introduce the bill as a government bill. Even if the government declined, they intended to introduce it as a legislator's bill (*Nikkei*, 4 February 1962, p. 3).

In response to the mood in the ruling party, on 15 February 1962, Satō and Tanaka agreed to introduce it into the 40th Ordinary Diet. The introduction of the bill would be around mid-March. They also decided to reconsider the provision on government annual reports.¹⁵² But they did not decide to introduce the bill as a government bill or a legislator's bill (*Nikkei*, 16 February 1962, p. 1). Next day, their

¹⁵¹ Coordination was expected for three relationships: (a) between big businesses and small businesses; (b) among small businesses; and (c) between small businesses and other organizations such as agricultural cooperatives and life cooperatives.

agreement was confirmed in a cabinet meeting. The cabinet decided to present the bill around mid-March. If the bill were presented as a legislator's bill, it would incorporate government views into it. Initially, Prime Minister Ikeda and MITI minister Satō were not in a hurry to enact the law. But as the opinion for quick enactment was getting stronger in the ruling party, Ikeda and Satō changed their position and finally supported the opinion of the ruling party. This supports one of the propositions of the ruling party dominance model that prime minister works for the ruling party (above p. 76).

VIII-D-2-d. Bureaucrats in the Formulation Process in 1962

After the cabinet decision of 16 February 1962, bureau chiefs from six ministries¹⁵³ met on 22 February 1962 to exchange their opinions on the LDP draft. At the beginning of the meeting, the head of the SMEA explained events leading to the cabinet decision to submit the bill by mid-March. They discussed how the future of small businesses could be envisioned. But their discussion did not go beyond the abstract topic (*Nikkei*, 23 February 1962, p. 1). This meeting of bureau chiefs shows the power of the ruling party. The party can direct bureaucrats to work on a particular bill that it thinks important. And the event is within the expectation of the ruling party dominance model that asserts that bureaucrats work for the ruling party (above p. 62).

¹⁵² It was said that implementation of government survey and report would cost 50 million yen (*Nikkei*, 20 February 1962, p. 1).

¹⁵³ The six ministries were the MITI, Finance, Agriculture/Forestry, Autonomy [*Jichishō*], Labor, and Welfare. The reason why the participation from these ministries was necessary was as follows. First, formulating the clause on domain coordination between small businesses and agricultural cooperatives and life cooperatives required the consultation with the Ministry of Agriculture/Forestry that had jurisdiction over agricultural cooperatives and the Ministry of Welfare that had jurisdiction over life cooperatives. Second, formulating the clause on the optimization of tax burden on small businesses requires the cooperation from the Ministry of Finance that controlled national tax, and the Ministry of Autonomy that controlled local taxes. Third, the cooperation from the Ministry of Labor and the Ministry of Culture was necessary for formulating the clauses on the supply of labor, the training of mechanics and technicians, and the protection of traditional and special crafts (*Nikkei*, 20 February 1962, p. 1).

In March 1962, bureau chiefs concluded that it would be difficult to introduce the bill into the current Diet as a government bill. Instead they agreed to introduce it as a legislator's bill and that the bill would only declare a rough outline of small business policy. Later they would introduce government bills that realize the rough outline into concrete policies (*Nikkei*, 13 March 1962, p. 1). The MITI found that having a uniform definition of small business among related laws was difficult and that it was also difficult to prepare budgetary measures that would substantiate a new definition of small business.¹⁵⁴ The issue of domain coordination with agricultural cooperatives and life cooperatives¹⁵⁵ did not go well. And it was said that forty related bills were necessary to realize the LDP's draft. The MITI just found that there was no time (SMEA, 1968, 10; *Nikkei*, 16 February 1962, p. 1; *Nikkei*, 13 March 1962, p. 1).

Following the bureau chiefs' conclusion, Ikeda, Satō and Tanaka decided to introduce the LDP draft as a legislator's bill. They realized that the government would have a tough time in the Diet deliberation to defend the LDP draft if it were to be introduced as a government bill. They also agreed not to pass the bill in the current Diet. For them, the bill was a signal for the electorate that the party had a plan for small business policy (*Nikkei*, 16 March 1962, p. 3).

VIII-D-3. Mobilizations and Decision at the 40th Ordinary Diet¹⁵⁶

On 19 March 1962, the Japan Socialist Party (JSP) and the Democratic Socialist Party (DSP) submitted their bills for the basic law into the Diet. Later the LDP

¹⁵⁴ If the definition of small business were to be changed, the number of small businesses that were entitled for government benefits would increase, thereby increasing budget. Thus changing the definition was said to require preparing budgetary measures.

¹⁵⁵ Life cooperatives are a network of small retailers that is aimed at providing benefits to its members.

introduced its bill on April 13. Although top leaders of the government and the ruling party agreed not to pass the bill, there were mobilizations asking the passage of the bill in the current Diet session. A group of fifty Diet members made a resolution to pass the bill immediately (*Nikkei*, 23 March 1962, Evening ed., p. 2). Four leaders of the Small and Medium Enterprise All Federation [*Chūshō Kigyō Sō Rengō*]¹⁵⁷ visited Ikeda's private house and asked him to pass the bill in the current Diet session (*Nikkei*, 17 April 1962, p. 3). Ayukawa of Japan Political League of Small and Medium Enterprise presented a petition to establish the basic law, including 120,000 signatures, to Masayoshi Ōhira, the Secretary General of the Cabinet [*kanbō chōkan*] (*Nikkei*, 22 April 1962, Evening ed., p. 2).

The Democratic Socialist Party was the most ardent for the passage of the bill.¹⁵⁸ With the last day of the current session approaching, they urged the LDP and the JSP to pass the LDP's bill with the three parties' joint modification, and they were ready to withdraw their own bill. They found that the LDP's bill was better than the status quo. They even insisted that the three parties should pass the bill without deliberation in the Lower House and immediately send it to the Upper House to establish the basic law (*Nikkei*, 18 April 1962, Evening ed., p. 1; *Nikkei*, 20 April 1962, Evening ed., p. 1; *Nikkei*, 2 April 1962, p. 1). However, the opposition parties could not agree with each other. The JSP declined the DSP's request by saying that their idea of the basic law was different from that of the LDP. The LDP, too, declined. For them, the bill was just an election appeal.

¹⁵⁶ The 40th Ordinary Diet was opened from 9 December 1961 to 7 May 1962.

¹⁵⁷ The Small and Medium Enterprise All Federation was formed on 28 July 1961 as an interest group that supported the LDP. It had more than 100 groups as its member (*Nikkei*, 9 September 1961, Evening ed., p. 1).

Without a substantial discussion of those bills, the 40th ordinary Diet ended on May 7. But the Commerce and Industry Committee of the Lower House decided to continue the deliberation of the issue. And it passed a resolution that asked the government to prepare the bills and budgetary measures (*Nikkei*, 7 May 1962, Evening ed., p. 1). MITI minister Satō responded that the government would submit its own bill to the next ordinary Diet session of 1963. This event might support the ruling party dominance model's hypothesis that the Diet would specialize in the function of directing a cabinet to work on a certain public issue (above p. 88).

VIII-D-4. Formulation by the Government in the Latter Half of 1962

After the Satō statement, the Small and Medium Enterprise Promotion Council, a deliberation council in the Small and Medium Enterprise Agency (SMEA), had no choice but to abandon its slow and careful approach to enact the basic law. Now the council was to hold its deliberation on the premise of formulating the basic law. And they met frequently to write a draft.¹⁵⁹ The SMEA did not formally ask the council to present its opinions, but it considered the council's opinions when formulating the basic law. On 26 June 1962, the council met the representatives of the LDP, the JSP and the DSP to hear each party's views on the basic law. The council deliberated a variety of minute issues relating to the basic law and presented its opinions. The SMEA wrote up a draft by the end of October 1962, referring to these opinions. During November and December 1962, the draft was circulated among relevant ministries.

¹⁵⁸ The DSP's strong advocacy for small business policy might be caused by its members' socioeconomic backgrounds. It was said that many members of the party were small business entrepreneurs.

¹⁵⁹ The committee met on May 25, June 26, August 3, August 21, September 6, September 21, September 28, October 2, in 1962.

Young bureaucrats at the SMEA had conducted research and discussion on basic issues of small businesses since September 1961. They came to have two conclusions that were expressed in the preamble of the basic law: the elimination of enterprise gaps and the provision of policies that would enable small businesses to respond to a changing business environment. They thought that the gaps were caused by a low productive efficiency [*butteki seisansei*] and a low pricing power in markets [*kakaku jitsugensei*]. They thought that modernization policies in the basic law should increase low productive efficiency that was generally observed among small businesses. And they hoped that policies concerning subcontracting and domain coordination would improve the low pricing power of small businesses.

To effectively respond to the changing business environment, the bureaucrats divided small businesses into twenty typologies according to their productive efficiency and the pricing power, and recommended different policies for each type of small businesses.¹⁶⁰ For example, they recommended setting up cooperatives where an industry faces an excessive competition among small businesses. To industries where demands were expected to rise, they recommended to modernize facilities and to optimize the scale of enterprise and management. To industries where demands were expected to decline, they recommended conversion to more promising industries. It is said that their policies ideas lay behind the government draft for the basic law (MITI, 1993).

VIII-D-5. Modifications to the Government Draft in 1963

¹⁶⁰ MITI, 1993, 261.

In December 1962, the government made its draft public.¹⁶¹ Small business interest groups immediately requested the government to augment tax, fiscal and financial policies. The LDP's League of Diet Members for Promoting Commerce and Industry made the similar requests and asked the Ministry of International Trade and Industry (MITI) to clarify the definition of the very small business. The League also expressed displeasure regarding the provision on self-effort [*jijyo doryoku*] and the provision that called for expanding the scale of enterprise. For them, these provisions seemed unnecessary government intervention in the management of small business entrepreneurs. Small business entrepreneurs showed a concern for the provision on the modernization of the labor-management relationship (MITI, 1991a, 266). They were afraid that such a provision might increase their obligation to employees.

On 1 February 1963, Policy Affair Research Council of the ruling party asked the MITI to modify the provision on business opportunity so that the provision would not regulate the activities of agricultural cooperatives and life cooperatives (*Nikkei*, 2 February 1963, p. 2). In response to these requests, the MITI eliminated the provisions on self-effort and on the expansion of enterprise scale, and weakened the provisions on labor-management relationships and on business opportunity. Through these modifications, the government bill was shortened from 36 to 33 articles. Finally the cabinet approved the bill on February 4, and submitted it to the Diet two days later.

The process of modifying the government draft shows how effective prior consultation is. It allowed ruling party politicians to eliminate every legal provision that might worry their political supporters. This process strengthens the validity of the ruling party dominance model. And it is useful to note that this happened in the year of 1963.

¹⁶¹ *Nikkei Shimbun* reported the government draft on 20, 21 and 22 December 1962.

The 1960s were the decade when bureaucrats were supposed to have an enormous power while politicians were on the way to accumulating policy expertise, according to many observers of Japanese politics (above p. 32). This case study casts doubts on the popular opinion that the locus of policymaking power has shifted from bureaucrats to politicians.

VIII-D-6. Mobilization in 1963

Although the government bill was introduced into the Diet on 2 February 1963, a substantial discussion of the bill did not take place immediately. The bill itself was complicated and had many related bills. It had to be considered along with the JSP's and DSP's bills. Besides, there were local elections that caused a recess of the Diet. By the end of May, the passage of the bill was doubted. Then, small business interest groups met the government and the ruling party, and asked them to give a priority to the discussion of the bill.

On 31 May 1963, the Commerce and Industry Committee of the Lower House finally started a substantial discussion of the bill. It scheduled public hearings in Osaka (on June 8), Nagoya (June 10), and Tokyo (June 12). Each hearing session had ten witnesses from academia, small business interest groups, financial institutions, and consumers' representatives. On 12 June 1963, the Committee held a hearing in the Lower House. The JSP endorsed Taikichi Itō, a professor of Keiō University, as a witness. Itō criticized the government bill of putting too much emphasis on modernization. He insisted that the bill instead should strengthen provisions on domain coordination and very small businesses. He urged the government to incorporate the JSP's and DSP's ideas into its bill regarding the issues on welfare for very small

businesses, the correction of business relationship with big businesses, and the upgrading of the SMEA.

The LDP endorsed Miyao Inagawa, a director [*riji*] of the National Federation of Small Business Associations, and Shigeo Kitano, a chief director [*rijichō*] of the Commerce and Industry Union Central Bank [*Shōkō Chūkin*]. They basically supported the government bill, but requested the government to beef up provisions on very small businesses, survey/statistics, enterprise conversion, retail, and financial benefits of the government-controlled financial institutions (*Nikkei*, 12 June 1963, Evening ed., p. 2).

VIII-D-7. Decision at the 43rd Ordinary Diet

We have seen that the bills of opposition parties were more protective of small business (above p. 145). On the other hand, the government bill, approved by the ruling party, was more considerate toward the competitive principle of the market, thereby weakening the protection of small businesses. When the government and opposition parties submit different bills, what is likely to happen in the Diet? Since it enjoyed a stable majority in the Lower House (above p. 138), the LDP should easily pass the government bill. It can ram it through the House if necessary, according to the ruling party dominance model.

VIII-D-7-a. Modifications at the Diet Committee

Confrontation between the ruling party and opposition parties emerged immediately when they started to examine the bill. The opposition parties demanded modifications to the provisions on very small businesses, domain coordination,

government procurement, and financial benefits. In response to the criticisms, on 14 June 1963, the Commerce and Industry Committee set up a subcommittee which is composed of two members from the LDP and the JSP and one member from DSP, to forge a consensus on the final text of the bill. The subcommittee was ordered to come to conclusion by June 18 (*Nikkei*, 15 June 1963, p. 2). On 19 June 1963, the LDP and the DSP came to an agreement to pass the government bill by modifying it on six provisions such as government procurement, finance and tax. Six modifications were as follows.

Table 8-2: Modifications to Government Bill at the Diet Committee

Subjects	Government bill	Modification
1 Purpose of the law (article 1)	To “ <i>complement[hosei]</i> disadvantages” facing small businesses.	To “ <i>correct[zesei]</i> disadvantages” facing small businesses.
2 Target of commerce policy (article 14)	“commerce”.	To add the phrase “small and medium services” to “commerce”.
3 Domain coordination policy (article 19)	To provide a “necessary policy”	To provide a “necessary policy such as preparing forums for conflict resolutions”
4 Government procurement policy (article 20)	“to <i>secure [kakuho]</i> ” government procurement for small businesses.	“to <i>increase [zōdai]</i> ” government procurement for small businesses.
5 Very small business policy (article 23)	To give “necessary consideration” to very small businesses.	To provide “necessary policy such as finance, tax and other matters” to very small businesses.
6 Finance policy (article 24)	“to optimally smooth the accommodation of funds” for small businesses.	“to secure funds” for small businesses.

[Source: MITI, 1991b, 273]

Modifications 1, 4 and 6 were aimed at augmenting the government commitment to small business policy. Modification 1 was meant to strengthen government efforts to eliminate disadvantages facing small businesses by replacing the word “complement” with a

stronger word “correct”. Modification 4 was also aimed at urging the government to increase the share of government procurement by small businesses. Modification 6 was intended to urge the government to strongly guide both public and private financial institutions to lend money to small businesses. Modifications 3 and 5 were aimed at elaborating government policies. Modification 3 tried to specifically obligate the government to prepare conflict-resolution forums for the issue of domain coordination between big and small businesses. Modification 5 tried to specifically obligate the government to provide tax and financial benefits for very small businesses. Finally, modification 2 was intended to make sure that the word “commerce” included not only wholesale and retail, but also services. Now we should remember that the ruling party dominance model has predicted that the party would not compromise with opposition parties because it enjoyed an overwhelming majority in the Diet. The case study clearly contradicts this prediction.

VIII-D-7-b. Forced Passage of the Bill

Although the Liberal Democratic Party and the Democratic Socialist Party made compromises, the Japan Socialist Party (JSP) was dissatisfied with the modified bill. Feeling excluded, the JSP announced that it would not attend further committee sessions, and oppose the bill at a plenary session of the Lower House if it was introduced. But it also said that it would pass the government bill with modification if it were sent to the Upper House (*Nikkei*, 20 June 1963, p. 3).

On 20 June 1963, the Commerce and Industry Committee of the Lower House passed the modified bill for the basic law along with four other government bills related

to the basic law with the support of the LDP and DSP. The socialist members did not attend the session as they had announced. With the passage of the day, the Committee passed all eleven bills relating to small business policy that the government had introduced into the 43rd Ordinary Diet.

But a plenary session of the Lower House could not open due to the JSP's opposition. The socialists boycotted all Diet sessions, including all committee sessions and plenary sessions of the Lower House, to protest the LDP's forcible passage¹⁶² of bills. The LDP rammed bills through the Committee on Labor and Welfare and the Committee on Cabinet on June 18 and 20. The LDP and the JSP negotiated to reopen the Diet since then.

The negotiation went on until June 26. But there was no breakthrough. Irritated, LDP members asked the chairman of the Lower House, a LDP lawmaker, to open a plenary session of the House. With his authority,¹⁶³ Chairman Ichiro Kiyose opened the plenary session at 9:11 p.m., and introduced the modified bill for the basic law as a subject matter. Then a motion to limit a deliberation time for the bill to 45 minutes¹⁶⁴ was passed with 224 ayes and 123 nays. After the deliberation, the bill came to a vote, and was passed with 256 ayes and 125 nays (*Nikkei*, 27 June 1963, p. 1). The government bill was sent to the Upper House and, after modification, passed there on 5 July 1963. In sum, modifications were made to the preamble and twelve articles of the bill.¹⁶⁵

¹⁶² A forcible passage proceeded as follows: 1) a chair of a committee declared an opening of a session; and 2) the chair immediately moved to a vote.

¹⁶³ Article 55, Section 2, of the Diet Law (president of each House can open a session by just notifying the date and time of the session when the chair thinks it necessary).

¹⁶⁴ An explanation of the bill was limited to 15 minutes, and 10 minutes for questions, 10 minutes for answers, and 10 minutes for debate.

¹⁶⁵ The bill was composed of 33 articles.

The forced passage of the bill in the plenary session of the Lower House showed that the Diet laws allowed the ruling party to control legislative activities in the House. The party can open a session when it wishes, can cut debate, and can vote on a bill. This example supports the ruling party dominance model that has maintained that the ruling party has institutional powers to control the Diet (above pp. 50-54). Although some scholars have argued the norm of unanimity in the Diet (above p. 55), this case study casts doubt on the validity of the claim. We should not assume that the norm is strong enough to constrain the behavior of the ruling party in the Diet.

VIII-E. Summary

The case study of the legislative process of enacting the Small and Medium Enterprise Basic Law of 1963 has demonstrated that the ruling Liberal Democratic Party was the most influential in the process. Through the rule of prior consultation, LDP politicians carefully directed bureaucrats to write the bill so as not to compromise the interests of their main supporters. The ruling party also dictated the timing of legislative activity. Although the Small and Medium Enterprise Agency (SMEA) was cautious of the initiative for the basic law, the opinion for the early enactment grew stronger in the ruling party, and the party decided to introduce the bill as soon as possible. After the party's decision, the SMEA and all relevant bureaus were mobilized to prepare the bill. Since the LDP's decision was solely motivated by its concern for the coming elections, it can be said that the ruling party can mobilize bureaucracy for its electoral consideration.

Bureaucrats declined the LDP's demand to introduce the party's draft as a government bill in 1962. This seems to suggest that they did have power to influence the

policymaking process. But their power to refuse the LDP's demand did not come from their expertise or the LDP's respect for their autonomy or discretion; rather, it came from just a sheer lack of time, which LDP politicians easily understood. Also, bureaucrats' expertise was not recognized by the case study. The MITI claimed that the government bill for the basic law reflected the policy idea of the young bureaucrats (above p. 153). But the case study comes to a conclusion that main policy ideas for the Basic Law were the same as the policy ideas that LDP lawmakers advocated.¹⁶⁶

Prime Minister Ikeda played an important role in the initiation dimension of the legislative process. It was his plan of doubling income in ten years that set a basic direction for small business policy in the 1960s. However, his role in formulation, mobilization, and decision was not conspicuous. He seemed to leave the formulation of the bill to the ruling party. Regarding the pace of the enactment, he supported the party's opinion for the early enactment. The lack of an active role for the prime minister or his reliance on the party in policy process is also recognized by the previous case study. Is this reliance on the party caused by the prime minister's relatively weak standing in the party? Or is it caused by the lack of serious disagreement between the party and the prime minister? Or is it a general pattern or norm in the party? As with the previous case study, this one cannot allow me to answer why Prime Minister Ikeda relied on the ruling party, leaving the majority of the work of legislation to it.

Nor is this case study able to confirm the effect of the appointment power of the ruling party leaders. Prime Minister Ikeda could not appoint his loyalists to chair of the Policy Affair Research Council and chair of Diet Strategy of the party. But the effect of his failure on the outcome of the lawmaking process is not clear. Would the final text of

¹⁶⁶ Compared with the LDP's draft (p. 138-9) and the text of the Basic Law (p. 126-8).

the bill have differed if Ikeda had succeeded in sending his loyalist to the chair of the PARC? It is hard to tell. It seems to me that it does not matter who sits in these positions. Whoever sits in these positions cannot ignore a majority opinion of the party.

As the previous case study, this case study also has found that the ruling party has compromised with the opposition party. According to the ruling party dominance model, compromises should not happen. Nonetheless, the ruling party rammed the bill through the Diet in the end, as the model predicts. And it is not clear whether the modifications that Democratic Socialist party got were substantial. The modifications were mainly wording. It might require studying the implementation of the law to see the effects of the wording. The role of the Japan Socialist Party in the process was even less clear.

Although the socialists had the voluminous platform for small business policy, my research could not find the influence of JSP's ideas on the legislative process. The Diet held the public hearing in which Professor Ito, who was endorsed by the JSP, urged the government to incorporate the elements of the socialist bill. But I could not find any evidence that the government, persuaded by the professor, modified its bill according to the socialist bill. By acquiring consent from one of opposition parties, that is, the DSP, the ruling party succeeded in giving legitimacy to its legislative decision and in depriving the JSP of any meaningful role in the process.

Lastly, let me conclude this case study by commenting on the validity of the statist, corporatist, pluralist and ruling party dominance models. I feel that the corporatist model scores the poorest in this case. I could not find peak organizations and stable consultative relationships. Although I found interest groups petitioning and appearing at the public hearings, I do not think that these activities fit well with what the corporatist

model has depicted. The pluralist model would cover these activities much better. And the fact that the Democratic Socialist Party succeeded in modifying the final text of the bill supports the pluralist model. Regarding the relationship between the ruling party and bureaucrats, the ruling party dominance model seems to predict it better than the statist model does in this case study. The ruling party mobilized bureaucrats to quickly write the bill so that the party could present it before the elections started. It also ordered them to revise some legal provisions in the bill to soothe party supporters who worried the effect of the bill. Moreover, this active role of the ruling party in policy process took place in the early 1960s. It casts doubt on the popular opinion that the locus of power in policymaking has shifted from bureaucrats to politicians.

IX. Case 3: The Small and Medium Enterprise Domain Coordination Law of 1977

During the 1970s, Japan was rocked by three external shocks. One was a revaluation of the Japanese currency yen. The other two were the two oil crises of 1973 and 1978.

These shocks deprived Japan of two important factors that contributed to its high economic growth, that is, undervalued yen and cheap oil. These shocks decreased big companies' profits and pushed them into industries traditionally occupied by small businesses. Small businesses, whose customers were taken away by big businesses, wanted the government to do something about their deteriorating business opportunities. How to regulate big businesses in order to protect small businesses in a given industry came to be known as an issue of *bunya chōsei* [domain coordination] in the media.¹⁶⁷

Small business organizations wanted the government to designate certain industries from which big industries were to be excluded, and to terminate or weaken big businesses' plans to initiate new businesses and to expand their existing business. But all bureaucrats were opposed to such policy ideas. Usually distrustful, big businesses and consumer-interest groups became strange bedfellows in order to oppose the ideas. On the other hand, opposition parties were more sympathetic to small businesses and advocated strong protective measures for them.

The ruling Liberal Democratic Party had a difficult time in forging a consensus on this issue, as some members doubted the idea of protecting small businesses from big businesses' competition. But a heavy electoral loss made LDP members anxious for support from small businesses. Then the party decided to protect small businesses by

¹⁶⁷ Mochizuki (1982) translated the Japanese words "*bunya chōsei*" into "domain coordination". I will use his words in this dissertation.

setting aside bureaucrats' objections. Nonetheless, it did not go as far as opposition parties to protect small businesses. By striking a balance between the competitive principle of the market and the protection of small businesses, the LDP has shown its capability to control the policymaking process.

IX-A. Economic Backgrounds

The 1970s marked the end of the postwar rapid economic growth. The average yearly growth rate of the national gross production was 4.9 percent for the 1970s, dropping from 10.4 percent for the 1960s.¹⁶⁸ Major causes of this decline were the revaluation of the Japanese currency yen and the quadrupled price of foreign oil.

On 15 August 1971, U. S. President Richard Nixon announced that the United States would no longer convert the dollar into gold. Subsequently, the American dollar was devaluated by 10 percent in relation to gold in December 1971. Finally, the International Monetary Fund legitimated a de facto system of floating exchange rates in January 1976 (Spero, 1990, 45-48). The effect of a series of these decisions was a revaluation of yen. The exchange rate of the American dollar and the Japanese yen had been fixed at one dollar equaling 360 yen for 22 years since the end of the Second World War. Then the fixed exchange rate was revised to make one dollar 308 yen in the December 1971. It was a 14 percent revaluation. The yen continued to be revaluated,

¹⁶⁸ Yearly growth rate of the national gross production during the 1970s.

Year	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	Ave.
GDP	8.0	5.1	8.8	4.8	0.0	3.9	4.0	4.7	5.0	5.5	4.9

[Source: Economic Planning Agency, 1994. The unit of the figures is percentage.]

and by 1976 one dollar became 292.43 yen.¹⁶⁹ Although Japanese exporters had increased their international competitiveness, this revaluation caused a panic among them.

In October 1973, a war erupted between Israel and Arab countries. Oil-producing Arab countries threatened to stop the oil supply to pro-Israeli countries, and to quadruple oil prices. Since Japan relied on foreign oil for three-fourths of its energy production, the price increase had a significant impact on its national economy and households. The increased price of crude oil raised prices of not only oil products but also of many other kinds of commodities, thereby causing a severe inflation (Nakamura, 1993, 220).

Consumer prices grew at 15.6, 20.9 and 10.4 percent in, respectively, 1973, 1974 and 1975 (Economic Planning Agency, 1994).

The revaluation of the yen and two oil crises of 1973 and 1978 ended the high growth of the Japanese economy. With a stable growth of the national economy and less business opportunity, big businesses started to diversify their economic activities, and advanced into industries that were traditionally occupied by small businesses. With a superior position that was made possible by a large capital, technology, sales networks and brand-name reputation, big businesses have been always looking for business opportunity in industries where mechanization [*kikaika*], mass procurement [*tairyō shiire*] and mass distribution [*tairyō hanbai*] make economic sense. Rather than setting up new companies with their name, big businesses often set up a subsidiary or dummy company with different names to start their business in new industries.¹⁷⁰ For small

¹⁶⁹ Changes of the exchange rate between the dollar and the year during the 1970s were as follows.

Year	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979
Rate	360.0	335.4	297.2	273.8	292.6	290.0	292.43	256.7	201.4	229.5

[Source: Economic Planning Agency, 1994. For example, in 1978, one dollar was exchanged with 201.4 yen]

¹⁷⁰ For example, Great Japan Print [*Dai Nihon Insatsu*], a large printer, set up its subsidiary name *Kyu Printo* to advance into light printing industry.

businesses, advancement by big businesses was a surprise because small businesses could not detect big businesses' entry into their industry in advance. Naturally small businesses moved to ask the government to do something in order to stop big businesses' advancement or to mitigate the negative effects of such advancements. How to regulate big businesses in order to protect small businesses in concerned industries was called as the "domain coordination" issue.

There were some legal provisions to deal with it. For example, the Department Store Law [*Hyakkaten Hō*], Law No. 116 of 1956, was to regulate retail activities, such as store space, business hours, and site, of one category of large and luxurious retail stores called "department stores" in order to take the concerns of small retailers into account. This law was renamed as the Large Retail Store Law [*Daikibo Kouri Tenpo Hō*], Law No. 109 of 1973, to subject another category of large retail stores called "supers"¹⁷¹ to regulation. Moreover, the Small and Medium Enterprise Organization Law [*Chūshō Kigyō Dantai Hō*], Law No. 147 of 1957, which we have discussed in Chapter VIII, had provisions for collective agreements [*kumiai kyōyaku*] among members of a commerce and industry union, special contracts [*tokushu keiyaku*], and the Central Conciliation Council for Small and Medium Enterprise [*Chuō Chūshō Kigyō Chōtei Shingikai*]. A union's collective agreements could regulate big businesses that were already a member of the union regarding production and marketing. Special contracts allowed commerce and industry unions to stop or alter advancement plans of big businesses. If collective agreements or special contracts were not effective, small businesses could bring their

¹⁷¹ "Supers" are another type of large retail shop. Department stores house luxury and expensive goods, while supers sell daily goods with low prices in a large shop floor.

complaints to the Conciliation Council. But it was rare that this council was utilized (MITI, 1991c, 59).

Mostly the issues of domain coordination were handled by administrative guidance (Ibid.). Article 19¹⁷² of the Small and Medium Enterprise Basic Law provided a legal authority for administrative guidance for the Ministry of International Trade and Industry (MITI) and the Small and Medium Enterprise Agency. An example of the working of administrative guidance on the issue of domain coordination is as follows. A light printing industry is a typical small business industry. The industry produces leaflets [*chirashi*], business cards [*meishi*], post cards [*hagaki*], and others. Great Japan Print [*Dai Nihon Insatsu*], a big company, decided to enter this industry, and set up a subsidiary *Kyu Printo* on 20 November 1973. *Kyu Printo* had a plan to open 500 shops around the nation. If this plan were implemented, existing small businesses were forced to be a franchisee of *Kyu Printo*, or go out of business.

Threatened by *Kyu Printo*'s advancement, small businesses asked their trade association, called Japan Light Print Industry [*Nihon Kei Insatsu Kōgyō Kai*: in short *Nikkeiin*], to do something about it. *Nikkeiin* talked to the Paper Industry Bureau of the MITI. Subsequently, the Bureau, under the name of administrative guidance, helped Great Japan Print and *Nikkeiin* to forge agreements to resolve the dispute. The agreements were as follows: 1) Great Japan Print could set up two shops that it directly managed; 2) Great Japan Print had to get an approval from the Bureau when it was to expand its business by making a non-*Nikkeiin* member its franchisee; and 3) the Bureau

¹⁷² Article 19 of the Basic Law provided that the government should take necessary measures, such as preparing forum for conflict resolution, in order to prevent unjust invasion of small businesses' interest caused by business activities of big companies, and to optimally secure business opportunity for small businesses.

had to consult with *Nikkeiin* when it gave Great Japan Print an approval for the expansion of franchisee.¹⁷³ It is said that 35 cases¹⁷⁴ of domain-coordination issues took place between 1963 and 1976 (MITI, 1991c, 65).

IX-B. The Major Provisions of the Small and Medium Enterprise Domain Coordination Law of 1977

The purpose of the Small and Medium Enterprise Domain Coordination Law of 1977 is to secure business opportunity for small businesses in markets where big businesses are about to advance into or expand their existing business (article 1). Also the article requires a government to pay attention to consumer's interests when it implements this law. Moreover, the law requires the government to protect small businesses without unduly undermining the competitive principle of the free economy (SMEA, 1978, 118).

To achieve these goals, the law imposes a general obligation on big businesses. Article 3 requires big businesses not to unjustly take away business opportunities of small businesses in markets where they are going to start their business or expand their existing businesses. The law also urges both big and small businesses to voluntarily resolve their disputes regarding business activities in their common markets (article 4). And small business interest groups can ask relevant ministries to investigate the content of big businesses' advancement and expansion plans if they notice that big businesses conceive

¹⁷³ Although the agreements were reached, Great Japan Print ignored them and went their own way. Obviously *Nikkeiin* was upset, but could not do anything other than starting a movement for a stronger legislation to deal with their problems.

¹⁷⁴ Issues of domain coordination took place in following industries other than the light printing industry: milk, soft drink, curry powder, fish meat [*kamaboko*], bean curd, *moyashi* [one kind of vegetable], Japanese confectionery, soy source, cutter, ceramic pot, paper cup, Japanese paper, bed, mirror, ironware, ceramics,

such plans (article 5). This article was intended to overcome difficulties facing small businesses to acquire information on big businesses' plans.

If big and small businesses cannot resolve their disputes by themselves, small business interest groups can ask relevant ministries to hear their disputes. Ministries can *advise* [*kankoku*] big businesses to terminate or scale down their business projects, or delay the timing of their business opening and expansion, if they judge that big businesses' projects would negatively affect the stability of management of small businesses by decreasing the demands for the goods and services which small businesses provide (articles 6 and 7). When ministries are going to offer advice, they have to consult with the Small and Medium Enterprise Domain Coordination Council [*Chūshō Kigyō Bunya Chōsei Shingikai*] (paragraph 1, article 7), and to make sure that consumer interests would not be unjustly compromised (paragraph 2, article 7). Furthermore, if big businesses do not implement advised measures without justifiable reasons, ministries can *order* [*meirei*] them to implement the measures (article 11). And if big businesses ignore the order, they will be fined 3 million yen (article 16).

The most controversial provisions in the law were articles 6, 11 and 16. Under these articles, a government can order big businesses to terminate their business activities, and can punish them if they ignore government orders. For some bureaucrats, this might infringe on the constitutional right of the freedom of enterprise (article 22, section 1, of the Japanese Constitutions). They were also skeptical of the whole idea to protect small businesses from the competition posed by big businesses. They believed that such an

screw, small boat, stationary, carton box, glasses, tire, hotel, cleaning, and funeral service (SMEA, 1978, 25).

idea was bad because it would undermine consumer interests and reduce the efforts of small businesses to make their enterprise efficient.

IX-C. Political Backgrounds

The Small and Medium Domain Coordination Law was established in 1977. The bill for the law was submitted by the Fukuda cabinet on 11 April 1977, and passed the Lower House on May 11 of the same year. But major events affecting the passage of the bill took place in 1976. Therefore, it is proper to see the political background in 1976 and 1977.

IX-C-1. The Diet

The 34th General Elections were held on 5 December 1976.¹⁷⁵ The election turned out to be a major blow to the ruling Liberal Democratic Party. The party lost a stable majority in the Diet; it barely maintained a majority of the Diet with a margin of one seat. The Japan Socialist Party got 123 seats, Komeitō 55,¹⁷⁶ and the Democratic Socialist Party 29. The three parties were ready to act together (*Asahi*, 6 December 1976,

¹⁷⁵ Numerical Strength of Political Parties in the Diet in 1976 and 1977

Political Parties	Numerical Strength in the Diet	
	Before 5 December 1976	After 5 December 1976
Liberal Democratic Party	265	257
Japan Socialist Party	112	123
Komeitō	30	55
Democratic Socialist Party	19	29
Japan Communist Party	39	17
New Liberal Club	5	17
Others	4	11
Total	474	511

[*Asahi*, 7 December 1976, p. 1]

¹⁷⁶ Komeitō is translated into "Clean Government Party". It is supported by the largest religious organization called *Sōka Gakkai* in Japan.

p. 1). The Japan Communist Party got 17 seats, and the New Liberal Club¹⁷⁷ got 17 seats. 11 seats went to the unaffiliated.

Under the power structure of the Diet in 1977, LDP leaders should have had a tough time in legislative activities in the Diet. A defection of a few LDP members to the opposition camp could prevent the LDP from passing its bills in the Diet. And a defection was possible. Several LDP members bolted from the ruling party and formed the New Liberal Club in the protestation to the plutocratic nature of the LDP in 1976. The party's popularity and integrity was at the nadir due to the implication of its senior members in the Lockheed Case, one of major bribery cases in postwar Japanese political history (below p. 196). Since some members could bolt from the party, leaders would have to accommodate them in order to prevent their defection. And LDP leaders had to accommodate opposition parties, too, so that opposition parties' filibusters would not weaken the public confidence in the LDP's ability to manage the legislative activities in the Diet.

IX-C-2. The Liberal Democratic Party

There were five large factions¹⁷⁸ around the year of 1977. The largest was the Tanaka faction, which had 45 seats in the Lower House and 41 seats in the Upper House. The Fukuda faction followed with 53 seats and 22 seats, respectively. Ōhira had 39 his

¹⁷⁷ The New Liberal Club was split from the LDP in June 1976, protesting the plutocratic nature of the LDP (Tsuchiya, 2000, 76).

¹⁷⁸ The numerical Strength of LDP Factions in 1977

Factions	Lower House	Upper House	Total
Fukuda	53	22	75
Tanaka	45	41	86
Ōhira	39	20	59
Nakasone	39	6	45
Miki	32	9	41

members and 20 respectively. The Nakasone and Miki factions were relatively smaller than these.¹⁷⁹ There were four small factions whose membership ranged from 4 to 13.¹⁸⁰ A close alliance between Tanaka and Ōhira factions, with the Nakasone faction opportunistically following, put the Fukuda and Miki factions in a weak position in the party. Thus we expect Fukuda and Miki to be weak actors in the policymaking process.

IX-C-3. Prime Ministers: Takeo Miki and Takeo Fukuda

Prime Minister Kakuei Tanaka resigned due to suspicion of taking a bribe from the Lockheed Corporation in November 1974.¹⁸¹ After Tanaka resigned, Etsuzaburō Shiina,¹⁸² vice-president of the LDP, nominated Takeo Miki for prime minister because of his reputation for political integrity. Miki had a clean image of being free from money and corruption (Uji, 2001, 309; Tsuchiya, 2000, 207). Miki served as prime minister from 9 December 1974 to 24 December 1976. His major work as prime minister was the revision of the Political Fund Regulation Law [*Seiji Shikin Kisei Hō*], Law No. 194 of 1948. The revision was aimed at correcting the plutocratic nature of the LDP. His major work in economic policy was the strengthening of the Antimonopoly Law, Law No. 54 of

[Source: Satō and Matsuzaki, 1986, 243]

¹⁷⁹ Nakasone faction had 39 seats in the lower house and 6 seats in the upper house. Miki faction had 32 seats and 9 seats respectively.

¹⁸⁰ Ishii had 4 seats in total; Funada 11; Mizuta 13; and Shiina 13.

¹⁸¹ He was subsequently arrested on a charge of taking a bribe in July 1976.

¹⁸² The reason why Shiina had the power to nominate the next party president is not clear. But it was said that a presidential election would bring chaos to the party. Miki threatened to boycott the election and even to bolt out of the party if the next president was to be selected by election. Miki probably speculated that Masayoshi Ōhira would be elected if election were to be held. Miki did not want to see Ōhira to be elected because Ōhira was a close friend of Tanaka. Fukuda objected having election because of Miki's threat to boycott. Takeo Fukuda, head of his own faction, could not expect support from Miki if the election was to be held (Masumi, 1994, 402). Ōhira preferred the election because the Tanaka faction would support him if it were to be held. Fukuda and Ōhira were main rivals. Thus if either one was to be elected as president, it is said that a party turmoil could not be avoided (Ibid.).

1947. He tried to curtail the selfish activities of big businesses¹⁸³ that were criticized during the oil crisis (Uji, 2001, 308).

After the heavy electoral defeat in December 1976, Miki resigned to take the responsibility. Then, Takeo Fukuda served as prime minister from 24 December 1976 to 7 December 1978. He had left the Ministry of Finance in 1950, and became a Diet member in 1952. He was a disciple of Kishi, and succeeded the Kishi faction in October 1962 (Tsuchiya, 2000, 139-40). His economic philosophy was opposite to Ikeda's. When Ikeda advocated the high-growth policy, Fukuda advocated a stable growth policy (Fukuda, 1995, 144). Fukuda criticized Ikeda's argument that high growth and consumption were virtues as absurd (Ibid.). I could not find what Miki and Fukuda personally thought about the issue of domain coordination during my research.

Fukuda's appointments to the LDP's posts were as follows.

Table 9-1: Fukuda's Appointments to Party Posts

Position	Appointment	Relationship with Fukuda
Secretary general	Ōhira	Ōhira faction (rival)
Chair of Executive Council	Ezaki	Tanaka faction (enemy)
Chair of PARC	Kōmoto	Miki faction (ally)
Chair of Diet Strategy	Kanemaru	Tanaka faction (enemy)

[Source: Satō and Matsuzaki 1986]

Fukuda appointed Masayoshi Ōhira as a secretary general, and Ōhira headed his own faction. Masumi Ezaki was appointed as the chair of the Executive Council, and he was a senior member of the Tanaka faction. Shin Kanemaru was appointed as the chair of the Diet Strategy, and he was also a member of the Tanaka faction. Toshio Kōmoto became a chair of the Policy Affair Research Council, and he was a member of the Miki faction.

¹⁸³ See below p. 176.

Fukuda appointed Tatsuo Tanaka, a member of his own faction, as the minister of the Ministry of International Trade and Industry. It was said that there was an agreement between Fukuda and Ōhira when they decided on the sequence of the LDP's presidency. The agreement was that Fukuda was responsible for the government and Ōhira was responsible for the party (Masumi 1985; Tuchiya 2000). This agreement might explain the fact that there was no member of the Fukuda faction holding an important party post.

IX-D. The Law-Making Process

The ruling Liberal Democratic Party had maintained a stable majority, 265 seats out of 474, in the Lower House in 1956. But after the elections of December 1957, it barely maintained a thin majority, 257 seats out of 511 (above note). Does this change affect the LDP's attitude toward the issue of domain coordination? Does this make it more deferential to opposition parties? With these questions in mind, let us look at the process in which the domain coordination law was established.

IX-D-1. Initiation

The issue of domain coordination had existed long before the enactment of the Small and Medium Enterprise Domain Coordination Law of 1977 (MITI, 1991c, 58). Since big businesses enjoyed a large capital, productive efficiency and market reputation, they could advance into any industry if they found that doing so would make economic sense. Small businesses had always been threatened by such possible advancement by big businesses. It was the socialists who responded to small businesses' anxiety. Since

1964, the Japan Socialist Party (JSP) consistently introduced a bill for the domain coordination law into the Diet. But the bill never became a law (MITI, 1991c, 59).

But around 1972, public anger against big businesses erupted. Big businesses engaged in preemptive buying and reluctant selling [*kaishime to urioshimi*] of land, goods and stocks, thereby pushing up prices. The public anger led to the strengthening of the antimonopoly law so that unfair practices of big businesses could be reduced. Partly influenced by this development of events, small business interest groups moved for legislation to restrict big businesses' business activities. The angry Japan Light Print Industry (*Nikkeiin*), whose agreements with Great Japan Print were ignored, advocated enacting the domain coordination law in January 1974.

In January 1975, umbrella organizations for small businesses, such as the National Federation of Small Business Associations [*Zenkoku Chūshō Kigyō Dantai Chuōkai*], asked the Ministry of International Trade and Industry (MITI) for legislation. Also, industry-specific interest groups, such as bean curd, printers, cleaning and eyeglasses, started to coordinate their advocacy for legislation. On 19 June 1975, 600 representatives from nine small business interest groups got together along with 100 members from eight observer groups. They formed a Discussion Group for Facilitating the Small and Medium Enterprise Domain Secure Law [*Chūshō Kigyō Bunya Kakuho Hō Sokushin Kyōgikai*: in short *Sokushinkyo*], and sent a petition for the enactment of the domain coordination law to political parties, the cabinet, the MITI, the Small and Medium Enterprise Agency (SMEA), the Ministry of Agriculture, the Ministry of Welfare and others (MITI, 1991c, 66).

IX-D-2. Formulation in 1976

IX-D-2-a. Bureaucrats' Response in 1976

Although interest groups and the Japan Socialist Party started to mobilize the advocacy for the domain coordination law, the MITI and the SMEA showed a negative response. Prime Minister Takeo Miki opposed the basic idea that big businesses should be prevented from advancing into industries traditionally occupied by small businesses. So did MITI minister Toshio Kōmoto. They reasoned that such a prohibition would violate constitutional rights of the freedom of enterprise [*eigyō no jiyū*], undermine consumer interests, and delay the modernization of small businesses

Besides, the MITI and SMEA believed that they had successfully handled domain coordination disputes through administrative guidance so far, and that augmenting administrative measures should suffice for the issue. On 18 May 1976, the MITI decided to position officers [*Chūshō Kigyō Chōtei Senmonkan*] commissioned to deal with the issue in eight regional offices of the MITI and 392 monitoring persons [*chōsa'in*] around the nation. Monitors would be housed in major offices of the Japan Chamber of Commerce and Industry, the National Federation of Commerce and Industry Club, and the National Federation of Small Business Associations [*Zenkoku Shōkō Dantai Rengōkai*] (*Nikkei*, 19 May 1976, p. 3). The monitoring project started from the fiscal year of 1976, i.e., from April 1976 to March 1977, and handled twenty to thirty cases each month (MITI, 1991c, 70).

IX-D-2-b. Formulation by Opposition Parties in 1976

The Japan Socialist Party presented its bill for the domain coordination law on 25 April 1974.¹⁸⁴ Komeitō,¹⁸⁵ the Japan Communist Party (JCP) and the Democratic Socialist Party (DSP) followed suit. Komeitō introduced its bill in February 1976, while the DSP presented their version one month later.

The socialists and communists took a hard stance toward big businesses. Their bills were to prevent big businesses from advancing into and expand their business in designated industries. Komeitō and the DSP required only notification from big businesses when they were about to start their business in designated industries. All the opposition parties allowed the government to designate industries to be regulated, make an order, along with advice, to change business plan of big businesses, to eliminate oppressive conducts,¹⁸⁶ and to terminate their business when they violated orders. Also the JSP, Komeitō and the JCP had a provision for monetary penalty. Komeitō and the DSP had a clause that allowed the government to investigate complaints from small business regarding big business's business entry [*tachiiri kensa*]. Each party's policy positions are as follows.

Table 9-2: Opposition Parties' Positions on the Issues of Domain Coordination Law

Issues	JSP	Komeitō	DSP	Communists
1. Designation of industry	To designate through cabinet order	To designate through cabinet order	To designate through cabinet order	To designate through ministry order with the deliberation of the council
2. Restriction of advancement and expansion	To prohibit advancement and expansion after the designation	To require a report 6 months before starting business	To require a report	To prohibit advancement into designated industries

¹⁸⁴ The main points in the JSP's bill were as follows: 1) to designate industries for small businesses; 2) to prohibit big businesses from advancing into and expanding their existing business in the designated industries after the designation; 3) to order big businesses to stop delaying payment to their suppliers (usually small businesses); and 4) to punish offenders (*Nikkei*, 8 May 1976, p. 3).

¹⁸⁵ Komeitō is translated into "Clean Government Party". It is supported by the largest religious organization called *Sōka Gakkai* in Japan.

¹⁸⁶ Such as unilaterally delaying payment to suppliers.

3. Order to Big businesses	To order big businesses to stop oppressive conducts	To order big businesses to alter their plan, and to terminate business	To order big businesses to stop oppressive conducts	To order big businesses to terminate business
4. Penalty	Monetary penalty	Monetary Penalty	No penalty	Monetary Penalty
5. Others		Investigation	Investigation	Governors can designate

[Source: MITI, 1991c, 68]

IX-D-2-c. The LDP's Formulation Activities in 1976

When the Japan Socialist Party introduced its bill in April 1974, there was advocacy for the legislation in the Liberal Democratic Party. But the LDP could not agree to introduce a bill due to a strong opposition from its members. Many lawmakers agreed with the MITI and opposed the domain coordination law (Mochizuki, 1982, 337).

Nonetheless, the advocacy was getting stronger when the party encountered declining public support, especially among small businesses in big cities (*Nikkei*, 8 May 1976, p.1). Newspapers followed the Lockheed Case¹⁸⁷ and reported the possible implication of senior members of the LDP in the case during 1976. And in July of that year, former Prime Minister Takuei Tanaka was formally arrested of taking a bribe from the company. This negative news coverage might have caused the declining public support for the party.

On 7 May 1976, the LDP decided to set up a subcommittee for the domain coordination issue in the Division of Commerce and Industry of the Policy Affair Research Council (MITI, 1991c, 67). At its first meeting, the subcommittee formally decided to introduce a legislator's bill, rather than to seek a government bill as a way to handle the issue. The subcommittee decided to work on a draft that Division Chairman Kabun Mutō proposed. The Mutō draft allowed the government to conduct a site

investigation, and to *advise* big businesses to stop their advancement into concerned industries. But the government could not *order* big businesses to stop their advancement under the draft. Neither could the government designate industries from which big businesses would be excluded (*Nikkei*, 8 May 1976, p. 1).

The subcommittee had a hard time in making consensus on the issue among the party. Some LDP members continued to oppose the bill because they believed that it would violate the constitutional right of the freedom of enterprise. On 12 May 1976, when he was invited to a meeting of the *Sokushinkyō* (above p. 199), Kōzō Watanabe, the head of the subcommittee, confessed that he would not be able to introduce the bill into the current Diet session that was going to end on May 24 (*Nikkei*, 13 May 1976, p. 9). In the end, the LDP gave up introducing the bill in the current Diet session.

IX-D-3. Mobilization in 1976

After its formation, *Sokushinkyō* set up regional branches, and sent opinion letters to local assemblies. The organization also sent an opinion survey letter to Diet members, thereby letting them to know that it had an interest in the issue. On 23 March 1976, it hosted a big meeting that called for an immediate passage of the domain coordination law. Major umbrella small business organizations participated in the meeting. Some of the groups had a strong affiliation with the LDP, others with the JSP or the DSP. Thus, the meeting was nonpartisan in nature.

IX-D-4. The Diet Resolution of 24 May 1976

¹⁸⁷ See above p. 173.

Since it failed to forge a consensus on the domain coordination issue in the party, the LDP did not introduce the bill into the current Diet session. Although opposition parties introduced their bills, the bills were not discussed. There was no deliberation on the issue during the ordinary Diet session of 1976. On 24 December 1976, however, the Commerce and Industry Committee of the Lower House made a unanimous decision to call the government to introduce a bill for the domain coordination law into the next ordinary Diet session (MITI, 1991c, 68). This Committee's decision might support the ruling party dominance model's hypothesis that the Diet would specialize in directing a cabinet to work on a certain public issue (above p. 88). The ruling party might signal its clear intent for the law to the Prime Minister, who had been known to be against the bill.

IX-D-5. Formulation at the Small and Medium Enterprise Policy Council in 1976

With the direction from the Diet Committee, the MITI and the SMEA had no choice but to work on legislation (*Nikkei*, 25 May 1976, p. 5). The MITI and the SMEA set up a subcommittee in the Small and Medium Enterprise Policy Council and started to formulate the bill (MITI, 1991c, 70). On 7 July 1976 the subcommittee held its first meeting. The majority of its members were against the legislation because it would undermine consumer's interests and would reduce the motivation for small businesses to enhance the efficiency of their business. Although they thought that it would not be desirable to legislate on this issue, they were going to present their opinions as a possible option if the government was really to go for the legislation (*Nikkei*, 8 July 1976, p. 3).

On 19 July 1976 the subcommittee held a hearing with the representatives from five small business interest groups. They expressed their doubt about the effectiveness of

administrative guidance that lacked legal underpinning. They told the subcommittee their experiences that administrative guidance often ended in favor for big businesses. By the time when administrative guidance was made, big businesses had already bought land, set up factories and equipped manufacturing machines. They emphasized the necessity of the legislation that was to regulate the advancement of big businesses by setting up clear requirements for such advancement (*Nikkei*, 20 July 1956, p. 3). The subcommittee also held a hearing with the representatives for consumers and big businesses (*Nikkei*, 27 July 1976, p. 3).

After more than ten meetings, the subcommittee consolidated their opinions and made them public on 29 November 1976 (*Nikkei*, 30 November 1976, p. 1, 4). Its conclusions were as follows: (a) the domain coordination law was necessary to forge a healthy relationship between small and big businesses, (b) but it was unnecessary to designate industries so as to exclude big businesses, (c) the law in principle was to facilitate discussion between concerned parties, and only allow the government to *advise* a cancellation of advancement plan by big businesses when conflicts could not be resolved through their discussion, (d) the retail industry should not be covered by this law, and (e) dummy companies¹⁸⁸ set up by big businesses were subject to this law, but not dummy companies set up by life cooperatives [*seikatsu kyōdō kumiai*] and agriculture cooperatives [*nōgyō kyōdō kumiai*]. On December 14, the Small and Medium Enterprise Policy Council approved the subcommittee's opinions and presented it to the head of the SMEA.

¹⁸⁸ A dummy company is a company that looks independent small business but is actually a subsidiary of a big business. When big companies decide to enter a new industry, they were said to set a subsidiary to delay of detection by small businesses in the industry of their advancement.

Immediately, opposition parties expressed their dissatisfaction with the council's opinions. The JSP said, "the bill was not different from administrative guidance. Administrative guidance had already been proven to be ineffective. We will push for the inclusion of the industry designation clause into the law in the Diet session". The DSP and Komeito made the similar comments (*Nikkei*, 16 December 1976, p. 3). The *Sokushinkyō*, of course, was dissatisfied with the opinions. They criticized the council's opinions of omitting the retail industry and not including the industry designation clause and a penal clause, and complained that the council's formulation would not check big businesses' advancement beforehand (*Nikkei*, 24 December 1976, p. 9). They started lobbying the LDP and opposition party lawmakers and collected one million signatures for a strong legislation. Also they planned to hold a rally around the nation in order to exert pressure on lawmakers from their own electoral district (*Nikkei*, 19 February 1977, p. 11; *Nikkei*, 16 February 1977, p. 8).

IX-D-6. MITI's Draft in 1977

In February 1977, the Ministry of International Trade and Industry (MITI) wrote up a draft for the government bill referring to the opinions presented by the Small and Medium Enterprise Policy Council. Major points in the draft were four: (a) there would be no designation that was to exclude big businesses, (b) the government could *only advise, not order*, big businesses to alter or cancel their business plans, (c) there would be *no penalty* even if the government's advice was ignored, and (d) the retail industry would not be covered by this law. Although the opposition parties and the majority of LDP lawmakers wanted to include the industry designation clause in the bill, the Legislative

Bureau of the Cabinet said that it would be unconstitutional¹⁸⁹ to designate particular industries and prohibit the advancement by big businesses into them when small businesses do not suffer concrete economic damages (*Nikkei*, 3 March 1977, evening ed., p. 1).

Did bureaucrats write a draft with understanding of policy preference of the ruling party? Or did they write it according to policy preferences of Prime Minister Fukuda? Or did they follow the opinions of the Policy Council? Or did they express their policy preference? My research has failed to answer these questions, but can answer whether policy preferences in their draft could stand when the whole legislative process ended.

After the government published its draft, small business organizations went to the LDP to express their frustration with it. On 4 February 1977, the LDP held a joint meeting of the Small and Medium Enterprise Basic Issue Research Group [*Chūshō Kigyō Kihon Mondai Chōsakai*] and the Commerce and Industry Division. At the meeting, party members listened to the interest groups. After the hearing, they examined the government draft. They criticized it as “lukewarm [*nama nurui*]”. The majority opinion of the meeting was as follows: (a) industry should be designated so as to regulate the advancement by big businesses, (b) the government should be able to *order, not only advise*, big businesses to terminate or scale down their advancement plan, (c) the penal clause should be included; (d) the law should apply to the retail industry, and (e) dummy companies of agricultural cooperatives [*Nōkyō*] and life cooperatives [*Seikyō*] should be regulated (*Nikkei*, 4 February 1977, Evening ed., p. 1).

¹⁸⁹ The clause would violate Article 22, Section 1, of Constitution, that is, the freedom of enterprise [*shokugyō sentaku*].

Now the policy preferences of the ruling party became clear. Although the party could not forge a consensus on the issue due to the opposition to the protective nature of the law in 1976, it seemed that a consensus finally emerged in 1977. The party's policy position was as much protective of small businesses as the bills of opposition parties were. As we have seen, the 34th General Elections of 5 December 1976 dealt the LDP a blow: it lost a stable majority in the Diet (above pp. 171-2). The *Nikkei* observed that the loss in the elections increased advocacy for a stronger regulation on the issue (14 February 1977, p. 3).

IX-D-7. LDP Overruled MITI in 1977

After having heard opinions from small business organizations and having forged a consensus among the party, party leaders started to modify the government draft through prior consultation. On 17 March 1977, the LDP decided to include two provisions into the MITI's draft. One was that the government could *order* big businesses to stop their advancement, and the other was that the government could *punish* them if they ignored the government's order. In the MITI's draft, the government could only advise, and could only publish the name of company that ignored the government advice.

But the LDP did not decide whether the government bill should be modified before or after its introduction into the Diet. It had been already expected that the opposition parties would demand to include the industry designation clause into the bill. And the ruling party feared that opposition parties might oppose the whole bill if their demand was rejected. Therefore, the LDP calculated that it would be wise to introduce

the government bill without modification. If the opposition parties demanded the industry designation clause, the LDP would agree to modify the government bill and include the order provision and penalty provision. Then the opposition parties could save face by getting concessions from the government, and the LDP and the government could pass the bill with planned modifications (*Nikkei*, 18 March 1977, p. 3).

The ruling party's consideration to save the opposition parties' face might be explained by the party's weak standing in the power structure of the Diet in 1977. With the low public support of the party, any upheaval in the Diet might further weaken the public confidence in the party's ability to govern. The ruling party must have wanted to prevent opposition parties from filibustering the legislative activities.

Also, on March 17 the ruling party decided not to press for the industry designation provision. At the meeting of 4 February 1977, when the party held the hearing with the small business organizations, it was reported that a majority opinion in the party was to designate industries (*Nikkei*, 4 February 1977, Evening ed., p. 1). But the opposition to this provision was also strong (*Nikkei*, 4 February 1977, p. 1; *Nikkei*, 18 March 1977, p. 3). Fearing that those who opposed the provision might bolt from the party, the leaders might have decided to give up this provision.¹⁹⁰ Such a bolt might ruin its precarious majority in the Diet. By refusing to press for the industry designation clause, the LDP did not go as far as opposition party did to protect small businesses, and struck a balance between the competitive principle of the free economy and the protection of small businesses.

¹⁹⁰ The possibility of bolting might not be a reason for the leaders to forgo with the industry designation provision. Since all opposition parties wanted to designate industries for small businesses (see Table 9-4, above p. 178-9), there is no place to join for LDP members who could not accept the provision. Party leaders might have accepted the argument of the Legislative Bureau of the Cabinet against the provision.

The LDP's modification of the government draft did not finish with the order and penalty provisions. It also demanded a provision that was to allow the government to investigate the advancement plans of big businesses when the MITI came to explain its draft to the party on March 18. The MITI had no choice but accept it. *Sokushinkyō* rejoiced, saying, "the inclusion of the investigation clause was our victory". Akiko Mimaki of Consumer Science Center deplored, saying "do they care about consumer interest at all?". But a senior member of the LDP was quoted as saying, "even if we discuss consumer interests, it did not bring votes" (*Nikkei*, 20 March 1977, p. 5).

On March 31, the MITI wrote up the final draft of the government bill, and showed it to the Commerce and Industry Division of the LDP. The Division granted an approval to the MITI (*Nikkei*, 1 April 1977, p. 3). Then, on April 7, the MITI went to the Policy Affair Research Council (PARC) of the LDP, and got an approval from it (*Nikkei*, 8 April 1977, p. 1). The PARC also decided to modify the government bill after it was introduced into the Diet.

Moreover, the PARC made another decision that brought another headache to the MITI. Due to its persuasion, the MITI had succeeded to rid the bill of a provision that would bring the retail industry under the coverage of the law. But the LDP wanted something similar to the domain coordination law for their supporters in the retail industry. Accordingly, on behalf of retailers the PARC decided to revise the Big Store Law and the Retail Commercial Activity Coordination Law [*Kouri Shōgyō Katsudō Chōsei Hō*] so as to protect retailers in the same way as the domain protection law (*Nikkei*, 8 April 1977, p. 3).

However, it is similarly possible to interpret that the leaders really wanted to avoid disruption in the party because of this provision.

Although the PARC was going to introduce the revision bill as a legislator's bill, the MITI decided to introduce it as a government bill. Because the regulation on the retail industry directly affected consumer interests, the MITI believed that it would be better for the government to handle the issue. They were afraid that the LDP could revise these laws in a way that would unduly restrict competition (*Nikkei*, 9 April 1957, p. 3). Finally, on April 8, the Executive Council approved the final draft of the domain coordination law on the condition that the government bill would be introduced along with the revision bills for the Big Store Law and the Retail Commercial Activity Coordination Law (*Nikkei*, 9 April 1957, p. 1).

When prior consultation between the ruling party and bureaucrats ended, the MITI draft was dramatically altered. Most policy preferences of the MITI could not withstand the party's scrutiny. Table 9-5 shows major points of issue in the bill for the domain coordination law.

Table 9-3: The MITI and the LDP on the Issues of the Domain Coordination Law

Issues	Deliberation Council/ MITI	LDP's majority opinions	Outcomes
1. Termination order	No order; only advise	To order big business to terminate	To order big business to terminate
2. Penalty	No penalty; only publish the name of offender	To punish if big businesses ignore the government's advice	To punish if big businesses ignore the government's advice
3. Retail industry	Not covered by the law	To cover	Not covered by this law, but covered by other laws
4. Dummy of Agriculture and Life Coops	Not covered by the law	To cover	Not covered
5. Site Investigation	No investigation	To investigate	To investigate

There were five major points of contention on which the ruling party and bureaucrats disagreed. The ruling party overruled bureaucrats on all the five points. There was no

room for bureaucrats to persuade the ruling party to adopt their policy position, as the statist model suggests. This outcome supports the ruling party dominance model.

IX-D-7. Decision at the Diet in 1977

After the Executive Council of the ruling party approved the government bill, the Fukuda cabinet introduced it into the Diet on 11 April 1977. The government introduced the bill without modifying the penal and termination clauses. And the legislative activities proceeded as the ruling party had calculated. The opposition parties demanded modification on the two provisions, and the ruling party accepted. On 28 April 1977, all major parties agreed to modify the government bill in order to include the penal clause and the termination order clause, and passed the modified bill along with the revision bills to the Retail Commercial Activity Coordination Law and the Big Store Law. On May 10, the modified bill was passed unanimously through the plenary session of the Lower House.

Inagawa of the National Federation of Small Business Associations was satisfied with the passage of the bill. He said that “the content of the bill was roughly the same as what we had insisted”. On the other hand, Furufuji of the Japan Business Federation [*Nikkeiren*], an organization for big businesses, was disappointed. He deplored that “the revised bill got tougher for big businesses than the original government bill was” (*Nikkei*, 12 May 1977, p. 7). The modified bill passed the Upper House committee (May 26) and the whole Upper House (May 27), thereby becoming a law on June 25.

IX-E. Summary

The case study of the legislative process of enacting the Small and Medium Enterprise Domain Coordination Law of 1977 has shown that the ruling Liberal Democratic Party was the most influential policymaker in the process. To protect small businesses that were threatened by competition from big businesses, the LDP struck a balance between the protection of them and the constitutional principle of the freedom of enterprise. The party set aside bureaucrats' skepticism toward the idea of protecting small businesses. Most of their policy preferences were overruled through prior consultation. Also the ruling party did not go as far as the opposition parties went to protect small businesses. The party rejected incorporating the industry designation that all the opposition parties wanted to include into the law.

The case study has also shown the influence of small business interest groups. They seem to get all that they wanted. Their victory may be remarkable given that the whole nation, except for small business interest groups and both ruling and opposition party politicians, seemed to oppose the domain coordination law. A decline of the public support for the LDP made its members to desperately seek support from small businesses by enacting protective measures for them. But this does not mean that the LDP was captured by small business organizations. Small businesses failed to incorporate the industry designation clause that some of them strongly wanted.

As the two previous case studies, this case study cannot confirm an active role of the prime minister. Prime Ministers Miki and Fukuda seemed to leave the task of formulating the bill to the ruling party in the process. When the disagreement among party members on the issue prevented the party from formulating the bill in 1976, Prime

Minister Miki did not intervene to forge a consensus, as the ruling party dominance model suggests. Major work and decisions were made between the MITI and the LDP.

Assessing the role of opposition parties in this case study is complicated. At first glance they seemed to exert influence in the process: they successfully modified the government bill in order to include the penalty clause and order clause. However, it is important to remember the difference between the control definition and influence definition of political power. The LDP's compliance with the opposition parties' demands may not be caused by their political power, according to the influence definition of power. The LDP's policy preferences might be the same as policy demands of opposition parties. And this case study observes that these modifications corresponded to the LDP's policy preferences.

Besides, even if we agree that the influence of the opposition parties increased, what increased their influence? Surely, the increased number of opposition party members in the Diet may be one source. But the opposition parties were after all a minority in the Diet and could not command a majority in it. According to the ruling party dominance model, if the ruling party is determined to reject their proposals, there is no way for them to reflect their policy preferences in laws. The fact that the opposition parties failed to incorporate the industry designation clause in the law attests this point. Unless they can command a majority in the Diet, they cannot control the outcome of the legislative activities in the Diet. The increased number of seats might not provide an adequate explanation for the alleged increase of the influence of the opposition parties. Like the two previous case studies, this case study cannot provide an insight into the

nature of the influence of opposition parties. I will return to this issue in Assessment of Hypotheses.

How does this case study fit well with the statist, corporatist, pluralist and ruling party dominance models? The fact that bureaucrats lost out on all the five points of contention in the process seems to contradict the statist model and support the ruling party dominance models. The pluralist model seems to fit with the final outcomes of the bill that reflected the policy preferences of opposition parties and interest groups. I could not find stable consultative relationships between interest groups and bureaus that were the main theme of the corporatist model in this case study, too. Although bureaucrats followed the opinions of the deliberation council when they wrote up the bill, the bill was greatly modified by the ruling party. Thus the corporatist model does not score well in this case study.

X. Case 4: The 1990 Agreements on the Big Store Law

According to the ruling party dominance model, a prime minister cannot insist on his policy preference when the ruling party and he have opposite policy preferences. This is especially true when the prime minister comes from a weak faction. The case study of the 1990 agreements between the Japanese and American governments on the retail industry, which contained a large number of small businesses,¹⁹¹ will clearly demonstrate this proposition.

In April 1990, the Japanese and American governments agreed to deregulate the Japanese retail store industry in order to increase American exports to Japan. During the 1980s, both governments saw growing trade disputes between the two countries, thereby poisoning one's image of the other. The agreements were the two governments' efforts to prevent a full-scale trade war from erupting.

The prime minister wanted to eliminate the regulations of the retail industry in order to please an American president and Japanese consumers. But party leaders, concerned with small businesses, wanted to dodge the American deregulation demands by making only small concessions. Faced with strong opposition from party leaders, the prime minister could not make a decision as he wished. Even bureaucrats, who were supposed to work for the prime minister, worked for party leaders. They knew who their real master was. In the end, party leaders overruled the prime minister by refusing to pledge the abolition of the regulation.

X-A. Economic Background

The 1980s were a decade when the Japanese economy enjoyed stable economic growth after getting out of the oil crises. Also, an increasing friction between Japan and the United States over trade and economic issues came to characterize the decade. Trade disputes did not emerge suddenly in the 1980s. They were chronically happening during the 1970s. For example, Nixon demanded the Japanese to restrain exports of non-cotton textiles by invoking the 1917 Trading with the Enemy Act (Friman, 1990, 11). But the saga of trade disputes between Japan and the United States reached a new height in 1985 when the U. S. Senate passed a nonbinding resolution condemning Japan as an unfair trader, and Senator Lloyd Bentsen said, "We are in a trade war, and we are losing it" (Flath, 2000, 179).

The main cause of this uproar was a growing American trade deficit with Japan. The deficit was \$10 billion in 1980, but grew to more than \$50 billion by 1987 (*USA Today*, 15 February 1994, p. 1). For the Americans, the causes of this deficit were the Japanese government regulations, collusive practices of Japanese corporations, and even Japanese culture and taste (Case, 1999, 11; Lincoln 1990; Bergsten and Cline 1985). For the Japanese, causes of the American trade deficit were the overvalued dollar, America's budget deficit, an inflow of foreign direct investment to the U. S., and Japan's high savings rate (Obi, 1990, 75).

In order to mitigate a mounting protectionist sentiment in Congress, the Reagan administration started a new trade strategy called the Market-Oriented Sector Selective (MOSS) in January 1985. Telecommunications equipment/services, electronic products, medical equipment, and forest products were selected for negotiation because "they were areas of American competitive strength, represented large markets, and involved serious

¹⁹¹ 1,084,209 out of 1,087,993 were small businesses in 1999.

access problems in Japan” (Case, 1999, 13). But Congress, unsatisfied with MOSS, strengthened a trade instrument called “Super 301”. Under the Super 301 procedure, the American government can designate foreign countries as unfair traders, demand them to eliminate trade barriers, and punish them with punitive tariffs if they fail to do so.

The Japanese vehemently opposed the American way of unilaterally calling other countries unfair and of unilaterally punishing them (*Nikkei*, 25 May 1989, 3). For them, the Super 301 was a violation of international trade rules (Nara, 1990, 231¹⁹²).¹⁹³ President George Bush wanted to avoid using the Super 301 trade instrument. Thus he augmented the American trade strategy by starting a new forum of negotiation called the Structural Impediments Initiative (SII).¹⁹⁴ Japan accepted Bush’s initiative only because it was better than the Super 301.¹⁹⁵

The SII took issues of both Japanese and American economic structure and economic activities in order to reduce an imbalance of international accounts between the two countries. The breadth and depth of the negotiations were unprecedented, not only in the history of the two countries but also in any relationship between two independent countries in the modern history (except trade unions such as European Union and free-trade zone agreements such as the U. S.-Canada free-trade agreements). The U. S. raised

¹⁹² Nara argued, “without a legitimate basis of prescriptive jurisdiction, the USTR’s [i.e., an American trade bureau] determination against allegedly ‘unfair’ foreign trade practices should not be enforced because such interference with the national economic policy of a foreign country violates public international law”.

¹⁹³ The World Trade Organization found that the Super 301 procedure is not inconsistent with American obligation under the WTO rules (WT/DS152/R, 22 December 1999, 350-1). The United States asserted that only legislation *mandating* a WTO inconsistency or precluding WTO consistency can violate WTO provisions (Ibid., 316). On the other hand, the European Union asserted that certain types of legislation under which a WTO inconsistent conduct is not mandated but is *allowed* could violate WTO obligations (Ibid.). Then the WTO bought the American argument.

¹⁹⁴ In the Japanese press, it was called “*nichibei kōzō kyōgi*”, which can be translated “Japan–U. S. structure discussion”.

¹⁹⁵ Some argued that the Japanese government should have brought the issue to the General Agreement of Tariffs and Trade, a predecessor of the World Trade Organization [Sasaki (Takeshi), 1989, 104; Obi, 1990, 76; Sasaki (Noriaki) 1990].

more than 250 concrete and minute topics about Japanese economic regulations and trade practices in the negotiations. One example of the American demands was that Japan should allow an installment plan in credit cards issued by banks (Obi, 1990, 76). Some observers felt that these kinds of demands were domestic interference.¹⁹⁶ The 1990 agreements to deregulate the Japanese retail industry was part of the conclusions reached in a series of SII negotiations.

X-B. Agreements

In April 1990 Japan and America agreed to deregulate the retail industry in Japan. The Big Store Law [*Daitempo Hō*], Law No. 109 of 1973, was the focus of the agreements. The Big Store Law made it difficult to open a large store that had a floor with more than one thousand square meters. They agreed to deregulate this restriction in the following three steps:

Step One: to shorten the period of a consultation procedure for opening a store to one and half years through an administrative guidance by May 1990;

Step Two: to revise the Law in 1991 so as to further shorten the period of a consultation procedure into one year and to increase the transparency of a consultation committee that makes a decision on whether an application for opening a big store be granted or not; and

Step Three: to make a fundamental review of the Big Store Law with a possibility of excluding the implementation of the Law in specific areas in 1993.

After the first step was implemented, the number of opening *applications*¹⁹⁷ for opening a big store reached to 1,210 from June 1990 to May 1991. It was said that the retail industry had an “unprecedented opening rash” (Watanabe, 1991, 32). The average

¹⁹⁶ See Sasaki (Noriaki) 1990.

number of opening application had been 500 a year since 1982 when the Ministry of International Trade and Industry had issued an administrative guidance that implemented the Law so as to suppress the number of openings. Thus the 1990 agreements seemed to have an effect since the number of application increased from 500 to 1,210 a year.

X-C. Political Background

A series of negotiations of the Structural Impediments Initiative (SII) took place in 1989 and 1990. The agreements of the SII are not a treaty. Since the Diet has authority to ratify only treaties under article 61 of the Constitution, it had no role in approving the agreements. Instead, the agreements of the SII were executive agreements that the cabinet can conclude under a power granted by article 73, section 2, of the Constitution without the consent of the Diet.¹⁹⁸ Since the Diet played no role in this decision-making process, I will not elaborate the political power structure of the Diet in this case study. But I will elaborate the balance of power among factions in the LDP and Prime Minister Toshiki Kaifu's appointments since the power relationship between the Prime Minister and the ruling party is the focus of this case study.

X-C-1. Factional Balance in the Liberal Democratic Party (LDP)

The factional balance of power in the LDP in 1990 was as follows: the Takeshita faction had 104 Diet members; the Abe faction was 86; the Miyazawa faction was 83; the Nakasone faction was 64; and the Kōmoto faction was 33. On 21 February 1990, Michio

¹⁹⁷ Not *actual* opening, to be sure.

¹⁹⁸ The section 2 of article 73 of Constitution grants the cabinet a power to deal with foreign affairs.

Watanabe succeeded Nakasone as head of the faction (*Nikkei*, 22 February 1990, p. 1).

Prime Minister Kaifu came from the weakest Kōmoto faction.

Table 10-1: Strength of Factions in the LDP in 1990

Factions	Takeshita	Abe	Miyazawa	Nakasone	Kōmoto
Number of members	104	86	83	64	33

[Source: *Nikkei*, 20 February 1990, p. 5. Figures are the number of Diet lawmakers (both Lower House and Upper House members)]

X-C-2. Prime Minister: Toshiki Kaifu

Toshiki Kaifu succeeded Sosuke Uno as prime minister after Uno resigned due to his sex scandal.¹⁹⁹ Kaifu served as prime minister from 9 August 1989 to 1 November 1991. Unlike Kishi or Ikeda, Kaifu did not become prime minister by his own power, since he came from the weakest Kōmoto faction. Noboru Takeshita and Shin Kanemaru, bosses of the largest Takeshita faction, chose him probably due to Kaifu's clean image (Uji, 2001, 344). They were looking for someone whom they could easily manipulate and who could improve the image of the LDP tarnished by the Recruit scandal,²⁰⁰ the ill-managed introduction of the consumption tax,²⁰¹ and Uno's scandal.

Kaifu appointed the following members to the LDP's posts in February 1990.

¹⁹⁹ Uno's concubine went public to complain of his treatment of her. This caused a public uproar, leading to his resignation.

²⁰⁰ The Recruit Corporation was a successful publisher of job-placement magazines. Recruit offered many bureaucrats and politicians the opportunity to buy unlisted shares in the company, with the purchase of shares financed by its own financial affiliate. Among the politicians who received unlisted shares were Takeshita, Nakasone, Finance Minister Miyazawa, the LDP's secretary general Abe, the JSP chairman Tanabe, and others (Curtis, 1999, 74).

²⁰¹ The bill for the consumption tax was passed on 24 October 1988. But the public perceived that the passage of the consumption tax was a violation of an official pledge that the LDP made in a simultaneous Lower and Upper House Elections of 6 July 1986. LDP president Nakasone pledged the nation that he would not introduce a large-scale indirect tax. For the public, the consumption tax was exactly same as the large-scale indirect tax that Nakasone pledged not to introduce.

Table 10-2: Kaifu's Appointments to Party Posts

Position	Appointment	Relationship with Kaifu
Secretary general	Ichorō Ozawa	Takeshita faction
Chair of Executive Council	Takeo Nishioka	Miyazawa faction
Chair of PARC	Mutsuki Katō	Abe faction
Chair of Diet Strategy	Takakazu Okuda	?

[Source: *Nikkei*, 22 February 1990, p. 1]

Kaifu appointed Ichirō Ozawa as a secretary general, and Ozawa was a member of the Takeshita faction. Takeo Nishioka was appointed as the chair of the Executive Council, and he was a senior member of the Miyazawa faction. Mutsuki Katō became a chair of the Policy Affair Research Council, and he was a member of the Abe faction. Kaifu appointed Kabun Mutō, a member of Watanabe faction, as the minister of the Ministry of International Trade and Industry. Reflecting his weak standing in the party, Kaifu could not appoint his loyalists to any of the important party posts. How did the power relationship between Prime Minister Kaifu and the ruling party affect the process of deregulating the Big Store Law? Let us look at the process.

X-D. The Process Leading to the Agreements

X-D-1. Beginning at the Arche Summit of 14 July 1989

On 14 July 1989, when Prime Minister Sōsuke Uno and President George Bush attended the Arche Summit of the seven advanced industrialized countries at Paris, they declared at their side talk that Japan and the United States would start the Structural Impediments Initiative (SII). The period of negotiation would be one year, and a midterm report would be published in the spring of the next year. They also said that the SII would proceed without relating to the Super 301 procedure. But the press noticed that

the SII and the Super 301 might be linked in the future (*Nikkei*, 15 July 1989, p. 1). For example, if Congress felt that the result of the SII was unsatisfactory when they saw the midterm report, they could start a Super 301 procedure independently. Thus it could be said that the SII would proceed under the shadow of the Super 301.

Through a series of the negotiations, the United States raised five topics as the problems of the Japanese economy. The five topics were (a) distribution system, (b) land policy, (c) investment impediments, (d) business practices, and (e) differentials between foreign and domestic prices [*nai gai kakaku sa*]. The Japanese were skeptical about the American argument that these topics were relevant to the imbalance of international accounts between the two countries. Mitsuo Matsushita, a professor at the University of Tokyo, might represent a majority opinion of the Japanese toward the SII (*Nikkei*, 15 July 1989, p. 3). The Japanese thought that the primary cause of the imbalance was America's macroeconomic policies,²⁰² and that the SII, whose focus seemed to be on Japan's microeconomic issues,²⁰³ would not significantly eradicate the imbalance. But some of the American demands were issues that the Japanese themselves should handle without being told by the Americans. Thus the Japanese government should cope with the SII, according to him.

X-D-2. Kaifu-Bush Summit of 1 September 1989

Kaifu became prime minister and got involved in the process of SII in August 1989. He had the first summit with Bush on 1 September 1989. At the summit, Bush

²⁰² Major causes of the imbalance were considered to be America's budget deficit, the overvalued dollar, large consumption, and an inflow of foreign direct investment, and Japan's high saving rate.

²⁰³ Microeconomics tries to understand how individual economic actor, whether a consumer or a firm, behaves in a market. For example, how much should a firm produce under a certain conditions in a

demanded that Kaifu show concrete progress in the midterm report. Kaifu and the Japanese bureaucrats accompanying him were surprised by Bush's demand. They worried that the American expected too much out of the SII. It was an illusion to expect a quick progress out of the discussion of structural problems, since structural problems were something that took a time to improve, if they improved at all (*Nikkei*, 2 September 1989, Evening ed., p. 1). Bush asked Kaifu to understand that he had received "an enormous pressure from the Congress" when he made the demand. Although Kaifu pledged to make an effort, he refused to make any concrete pledge.

X-D-3. The First Round of the Structural Impediments Initiative of 4 and 5 September 1989

The first round of the Structural Impediments Initiative was held at the Ministry of Foreign Affairs in Tokyo. The American delegation was composed of McCormack (State), Williams (USTR), Dallara (Treasury), and Armacost (American ambassador to Japan). The Japanese delegation was composed of Kunihiro (Foreign Affairs), Suzuki (MITI), and Utsumi (Finance).

In the morning session of the first day, Americans took issue of saving/investment and land policy as a problem of the Japanese economy. Japan's saving that surpassed investment was a cause of a large surplus in Japan's international accounts, Americans said. There should be more public works such as parks, highways and sewerage works. Also, high land prices suppressed consumption and prevented the entry of foreign companies, thereby discouraging imports. Then the Japanese responded to these

market? Market restrictions and the behavior of a firm such as business alliance or cartel are considered as issues of microeconomics.

arguments. Further public works would accelerate the already heated economy, causing inflation. Regarding land policy, the government was ready to introduce the Land Basic Law into a coming Diet and was already making efforts along the direction of American demands. It would take a time to show the result, the government said.

In the afternoon session, the distribution system, price differentials, *keiretsu* relationship [business alliance], and exclusive trade practices were raised as issues. Regarding the distribution system, the American delegates asserted that government regulations such as the Big Store Law, the Medicine Law [*Yakuji Hō*], and the Alcohol Sale Law [*Shuhan Hō*] prevented market entry for foreign producers. The Japanese responded that the number of approval of alcohol shops was increasing and that the government was working on to deregulate the opening requirements imposed by the Big Store Law.

In the second day, the Japanese delegates raised seven issues related to the American economy. They were saving/investment, corporate investment/supply capability, corporate behavior, government regulations, research & development, export promotion, and training and education of workers. The Americans generally accepted Japanese arguments, but denied some. For example, they denied the Japanese assertions that the treble damage of the antitrust law had a chilling effect on corporate activities²⁰⁴ and that the leveraged buyout reduced the incentive to invest in corporate facilities (*Nikkei*, 6 September 1989, p. 1).²⁰⁵

²⁰⁴ Under the treble damage, a winning plaintiff of a lawsuit can get a tripled amount of actual damage plus lawyer's fee. The Japanese delegation said that this rule caused a barrage of lawsuit and inhibited corporate activities.

²⁰⁵ Leverage buyout was one way of merger & acquisition. It is to acquire a company by getting a loan in security for the assets of the company to be acquired.

The first round was concluded with three agreements. The first agreement was a common project to increase Japanese imports and American exports. The second was a common survey on price differentials between domestic and foreign prices²⁰⁶ in Japan. And the third was to eliminate a preferential tax on farmland in city districts [*shigaika kuiki*] in Japan. But disagreements between Japan and America were clear on issues of corporate alliance and exclusive trade practices. The Japanese suggested that the talk should be restricted to something that the governments could do. But the Americans insisted that remedy should be made not only to government regulations but also to business behaviors in the private sector (*Nikkei*, 6 September 1989, p. 1).

In the aftermath of the first round, the Japanese government started to implement the agreements. Regarding the distribution system, the government was reported to consider shortening a procedure for opening a big store, which was alleged to take ten years, into *two years* through an administrative guidance (*Nikkei*, 6 September 1989, p. 5). Also, big stores would be allowed to sell alcohol.

X-D-4. The Second Round of the Structural Impediments Initiative of 6 and 7 November 1989

The second round of the Structural Impediments Initiative was held in Washington D. C. The structural problems of the American economy were discussed on November 6. The Japanese negotiators²⁰⁷ took issue of leveraged buyout and the policy

²⁰⁶ It was said that cheap foreign goods suddenly got expensive when imported into Japan. Americans argued that high prices in Japan contributed to a low consumption of foreign goods.

²⁰⁷ Japanese negotiators were the counselor Watanabe (Ministry of Foreign Affairs) and the counselor Suzuki (the MITI) (*Nikkei*, 7 November 1989, p. 1).

of maintaining high price for export goods.²⁰⁸ The focus of day two was on the business alliance [keiretsu] and land policy in Japan. American negotiators piled up concrete demands, ten for business alliance and eighteen for land policy (*Nikkei*, 8 November 1989, p. 1, 5; *Nikkei*, 8 November 1989, Evening ed., p. 1, 3). The Japanese negotiators just explained the causes of structural problems and did not present action plans. After the round, McCormack (State) and Dallara (Treasury) expressed disappointment by saying, “there was a development that was far below expectation” (*Nikkei*, 8 November 1989, Evening ed., p. 3).

X-D-5. The Third Round of the Structural Impediments Initiative of 22 and 23 February 1990

In preparation for the third round, the Japanese government wrote fourteen action plans. For example, the government would tax farmlands in three metropolitan areas with the same rate as houses from 1992. It was also considering to make possible installment plans by credit cards issued by banks and to introduce two holidays a week for public employees.

But the government would not mention the improvement of residential infrastructure through the increase of public works that the American delegation had strongly demanded. Nor was the revision of Japan’s antitrust laws mentioned. With regard to the Big Store Law, the government was to explain that it would issue an administrative guidance to shorten the consultation procedure to two years, but did not consider a revision of the Law, let alone its abolition (*Nikkei*, 22 February 1990, p. 1).

²⁰⁸ In October 1989, Japan’s Fair Trade Commission alleged that Apple Computer and Budweiser of maintaining high the price of their export goods to Japan by conducting surveillance over wholesalers’

When the third round started, the Japanese delegation was surprised by American demands. The United States demanded that the expenditure for public works should be raised to ten percent of the gross national product. The antitrust law should be revised so as to increase a pecuniary penalty on cartel members. Regarding the Big Store Law, the United States demanded an immediate deregulation and eventual abolition of the Law along with local governments' regulation on store opening (*Nikkei*, 23 February 1990, p. 1). The Japanese government predicted that the American government would not demand the abolition of the Big Store Law since its abolition would eliminate a common standard on the store-opening procedure around the nation (*Nikkei*, 22 February 1990, p. 5). The lack of the common standard would provide some local governments an opportunity to strengthen their own regulation on the same matter. That was why the American government demanded local governments' regulation and that of the central government be abolished altogether (*Nikkei*, 23 February 1990, p. 5).

After the third round, the American delegation made clear their displeasure and frustration with the Japanese government. Dallara said, "if the SII could not produce concrete results, the Congress could not be controlled", suggesting that bills targeting Japan would increase in Congress and a procedure of the Super 301 be initiated (*Nikkei*, 24 February 1990, p. 3). The Japanese delegation now seemed to realize what the Americans really wanted. But they felt that the buck was passed from Kasumigaseki to Nagata-cho, meaning that the matter went out of the hands of bureaucrats and that politicians had to deal with it. Clearly understanding the situation, LDP secretary general Ichirō Ozawa was reported to say, "finally the Americans got serious. Without waiting

resale. This conduct might violate antitrust law (*Nikkei*, 6 November 1989, Evening ed., pp. 1-2).

for the response of bureaucrats, the party should produce a good idea” (*Nikkei*, 24 February 1990, p. 3).

It seems to me that the main protagonist on the Japanese side of the negotiations changed from bureaucrats to politicians after the third round. The ruling party’s involvement in the process might suggest that bureaucrats were handling the issue within the limits set by politicians. And when bureaucrats have to go beyond the limits, they have to ask politicians to handle it. In other words, politicians let bureaucrats go freely within the limits, but will not let them go beyond the limits; in essence, politicians control bureaucrats. This interpretation well explains Ozawa’s comment and fits with the ruling party dominance model.

X-D-6. Kaifu and His Opposition

The crux of the decision-making process of deregulating the Big Store Law was whether the Japanese government should make a pledge to abolish the law altogether in the near future. On this issue, the prime minister and the ruling party had opposite policy preferences. Then, which policy position should prevail? As I discussed above (p. 91), I have failed to answer this question in term of the statist, corporatist and pluralist models. According to the ruling party dominance model, however, the answer is clear: the ruling party should overrule the prime minister. As we have seen, the ruling party is able to select, censure and dismiss the prime minister (above p. 61). And the party can kill his proposal and examine his decisions in the Diet. Under this kind of political power structure, the prime minister cannot go against a majority opinion of the ruling party.

On 31 March 1990, Kaifu met Kabun Mutō, the minister of the Ministry of International Trade and Industry (MITI), around 10:20 p.m., and Ozawa, secretary general of the LDP, around 11 p.m. Kaifu wanted to include a clear pledge to abolish the Big Store Law in the near future in the midterm report. But Ozawa and Mutō wanted to finish the Structural Impediments Initiative (SII) with a change in the implementation of the law through administrative guidance and the revision of the law (*Nikkei*, 1 April 1990, p.1).

Kaifu insisted that the United States would not be satisfied with only the exemption of the implementation of the Law in the twenty-three special districts of Tokyo, Osaka City and Nagoya City. Kaifu telephoned Shintarō Abe, head of the Abe faction, to ask his support. He also telephoned Shin Kanemaru, head of the Takeshita faction. Kanemaru was reported as saying, "I will support you for the nation wholeheartedly if you are ready to risk your life for this" (*Nikkei* 2 April 1990, p. 2). Kaifu believed that Kanemaru would support him.

Ozawa was concerned with coming local elections, and was reluctant to pledge the abolition of the law. After the meeting with Kaifu, Ozawa went to the Foreign Ministry to meet Watanabe, a counselor of the Ministry and head of the Japanese delegation of the SII. It was said that Ozawa wanted to confirm what the Americans really demanded (*Nikkei*, 2 April 1990, p.2). For his part, Mutō was mobilizing the opposition against the abolition of the law (*Ibid.*).

The battle between Kaifu and his opponents ended when Suzuki, a MITI bureaucrat, reported the government on April 2 that he got an understanding from the American negotiators over his proposals on the Big Store Law. He had started an

informal negotiation with his American counterparts before the Japanese delegation arrived in Washington for the fourth round of the SII. His proposals were threefold. First, the Japanese government would shorten the consultative procedure for opening a big store into *one* year by changing the implementation of the law through administrative guidance. Second, the government would order local governments to abolish their regulations on store openings. Third, the government would exempt the implementation of the law in “specific areas”, which implied big cities, by revising the law (*Nikkei*, 2 April 1990, evening, 1). Suzuki’s report meant that Kaifu was overruled by his opponents. The understandings that Suzuki got from Americans were what Ozawa and Mutō wanted or could accept. Kaifu’s policy preference of abolishing the law did not appear in the understandings.

Aides to Kaifu confessed that bureaucrats of the Ministry of International Trade and Industry (MITI) could not proceed with the option of abolishing the Big Store Law due to the pressure from Muto and the LDP’s *shōkō zoku* [members of the Commerce and Industry Division of the Policy Affair Research Council] (*Nikkei*, 4 April 1990, p. 2). The Watanabe and Abe factions mobilized the opposition to the abolition from the beginning. MITI minister Mutō, a senior member of the Watanabe faction, ignored the prime minister, and asked heads of each faction to oppose the abolition. He warned the aids to Kaifu that “the Kaifu *oroshi*” [ousting Kaifu from office] would start in the party if they were to insist the abolition of the law (*Ibid.*). Mutō was marshaling a consensus against abolition among the party, prodded by small retailers’ interest groups. These groups were reported to meet with the party leaders to show their opposition against the abolition (*Nikkei*, 3 April 1990, p. 2). Finally Kanemaru, boss of the largest Takeshita

faction, dealt a coup de grace. He agreed with the exemption of the implementation of the law in large cities, but opposed its abolition.

The behavior of the MITI bureaucrat Suzuki and minister Mutō is within the expectation of the proposition of anticipated reaction of the ruling party dominance model. Suzuki anticipated the reaction of the ruling party that it had no intention of abolishing the Big Store Law, and accordingly behaved to support the party's policy preferences, even if doing so meant going against their formal boss. They knew that party leaders such as Ozawa, Kanemaru and Abe were far stronger than Prime Minister Kaifu.

Kaifu had to consider three factors when making a decision on the issue of deregulating the Big Store Law. First was the Japanese and American relationship. His advocacy for abolishing the law grew out of the first summit with Bush, where he pledged to make an effort in the Structural Impediments Initiative. The second was consumers. Kaifu believed that abolishing the Law would increase his popularity among consumers. It also accorded with one of basic policies of his cabinet, i.e., giving priority to consumer interests [*shōhisha jyūshi*] over producer interests. Consumer support was indispensable to Kaifu, whose standing in the party was weak. But the last factor, *Nagata-chō* politics, a euphemism for the LDP's factional politics, overruled the former two factors. If the Takeshita, Abe, and Watanabe factions were united to oppose the abolition, Kaifu could proceed with it only at the peril of his premiership.

X-D-7. The Fourth Round of the Structural Impediments Initiative of 2, 3 and 4 April 1990 and the Agreements

The government formulated its draft for the midterm report on the evening of April 2. Regarding the Big Store Law, the draft included Suzuki's proposals without correction. Kaifu invited the LDP's top leaders, including Ozawa, in the evening and presented the government draft to them. They gave approval to the draft.

Around the same time in Washington, the fourth round of the SII started. At 10 a.m., Washington time, both Japanese and American delegations, amounting to 150 people, gathered at the Henderson Hall of the State Department. After the twenty-minute of the plenary session, delegates were divided into smaller conference rooms to discuss each subject. The first day of the Fourth Round continued until mid-night. Out of fourteen hours of the negotiation in the first day, twelve hours were spent on structural issues of the Japanese economy. In addition to the eighteen items that it demanded strongly, the American government presented a list of more than two hundred demands to specify the earlier eighteen items that it handed to the Japanese government in the second round.

The Japanese side explained its final draft for the midterm report. They repeated Suzuki's proposals for the Big Store Law. But the American delegation showed displeasure, and demanded to specify the "specific areas" where the Japanese government would consider exempting the implementation of the law. Moreover they demanded to include a pledge to abolish the law in the future in the mid-term report. The Japanese side rejected these demands. But the pushing-and-pulling over these issues continued into the second day of the round, and became the focus of the fourth round.

Finally, by extending the round for two days, the Japanese and American delegates agreed on the final draft for the midterm report. Regarding the Big Store Law,

they made the following three agreements (*Nikkei*, 4 April 1990, p. 1; *Nikkei*, 6 April 1990, p. 2):

Step One: through an administrative guidance to shorten a consultation procedure for opening a big store into one and half year and to allow big stores to expand their sale space for imported goods up to 100 square meters without a consultation procedure by May 1990;

Step Two: to revise the law in the next Diet session (starting from December 1991) so as to further shorten the consultation procedure into one year and to increase the transparency of a consultation committee; and

Step Three: to make a fundamental review of the Big Store Law with a possibility of forgoing the implementation of the law in specific areas in 1993.

Kaifu presented the final draft of the midterm report to the LDP's top leaders, and got approval from them (*Nikkei*, 6 April 1990, p. 1). After that, Kaifu held a cabinet meeting to approve the draft, and went to a press conference to report the result of the round to the public. These agreements in the midterm report were confirmed in the final report of the SII that was concluded in 28 June 1990 (*Nikkei*, 29 June 1990, p. 6).

X-E. Summary

The case study of the decision-making process of deregulating the Big Store Law has shown that LDP leaders were the most influential in the process. On the crucial issue of whether the Law should be abolished altogether, the prime minister and the ruling party had different policy preferences. Mindful of their supporters in the retail industry, the LDP rejected the policy preference of Prime Minister Kaifu and the American government for abolishing the regulations on the opening of big stores. Throughout the process, the ruling party was monitoring Kaifu's behavior. He had to show the party

leaders the draft of the midterm report and to get an approval from them. He even had to get approval from them for announcing the final result of the SII negotiations to the public.

The case study has also shown that the ruling party was controlling bureaucrats, too. In the early stage of the negotiation of the Structural Impediment Initiative, bureaucrats seemed to be major actors. But after the negotiations reached to the real points of contention, bureaucrats realized their limits and passed the buck to the ruling party. And the ruling party got seriously involved in the process to work out the settlement points in the process.

As the ruling party dominance model has predicted that bureaucrats work for the ruling party by anticipating the party's policy preference (above p. 38), the case study confirmed that MITI bureaucrats, who were supposed to work for the prime minister, were working for the ruling party. Suzuki of MITI was negotiating the ruling party's position, not that of the prime minister, against the American delegates. MITI minister Mutō, who was supposed to be a minister for Prime Minister Kaifu, was actually undermining his policy position. The actions of Suzuki and Mutō fell within the range of prediction of the ruling party dominance model. The model predicted that bureaucrats would support the ruling party when the party and prime minister had opposite policy preferences.

In this case study, the ruling party dominance model seems to explain the process well. The change of main protagonists in the process, the rejection of Prime Minister Kaifu's preference by the ruling party, and the behavior of Suzuki all fit well with the model. The statist model does not score well since I could not find a leading role for

them in the process. Neither does the corporatist model. Consultative relationships between bureaus and peak organizations was not found in the decision-making process. Although there was no input from opposition parties throughout the process, the ruling party heard opinions of small business organizations. This civilian input into the process is within the expectation of the pluralist model.

XI. Assessment of Hypotheses

In Chapter IV I derived hypotheses on policymaking roles for each political actor from the statist, corporatist, pluralist and ruling party dominance models. Then I conducted four case studies on the policymaking process of small business policy from Chapter VII to the last chapter. In this chapter, I would like to assess the hypotheses.

Do the case studies in the previous chapters support the ruling party dominance model's hypotheses on policy process that I have presented in the Chapter IV? Overall, the model's hypotheses and propositions on power relationships among political actors are supported by the case studies. And no "power shift" hypothesis is clearly supported. But the model's hypotheses on specific functions for each political actor in policymaking process are not supported.

XI-A. The LDP

I have asked, "What kind of role does the ruling Liberal Democratic Party play in the policymaking process?" in Chapter IV (above p. 68). The statist hypothesis was that the LDP would act as a "safety valve" for bureaucrats so that the latter can carry out main tasks of the developmental state (above p. 14). The corporatist and pluralist hypotheses were that the LDP would mediate between bureaucrats and interest groups (above pp. 26 and 32). And the ruling party dominance model hypothesized that the LDP would play a paramount role in the small business policymaking process.

The 1957 case showed that the ruling party set aside bureaucrats' constitutional objections to the legal provision that allowed a government to order small businesses to join a commerce and industry union (above p. 129). The 1963 case showed that the

ruling party dictated the pace of the lawmaking process and instructed bureaucrats to modify legal provisions in the government draft that might undermine interests of the party's supporters. The 1977 case showed that again the ruling party set aside bureaucrat's constitutional objection to the legal provisions that allowed government to order big businesses to terminate their business plans to advance into the industries mostly occupied by small businesses (above p. 190). The 1990 case showed that the ruling party, overruling the prime minister, decided not to abolish the Big Store Law. These findings showed that the ruling party overruled other political actors and reflected its policy preferences on all the crucial points in the four policymaking processes. From these findings, it is reasonable to conclude that the ruling party played a dominant role in small business policymaking processes.

XI-B. The Diet

The first question about the role of the Diet in small business policymaking process was that "[w]hose policy preferences are the most clearly reflected in the Diet?" (above p. 70). The statist hypothesis was that the "Diet would reflect bureaucrats' policy preferences" (above p. 72). The corporatist and pluralist hypothesis was that the "Diet would reflect policy preferences of all the major political actor more or less" (Ibid.). And the ruling party dominance model hypothesized that the "Diet would reflect only the LDP's policy preferences" (Ibid.).

Since the Diet passed the bills to which bureaucrats strongly objected on the constitutional grounds in 1957 and 1977, the statist hypothesis is not supported. It can be said that all laws that the Diet passed reflected policy preferences of all the major

political players. Although bureaucrats were not pleased with the Organization Law of 1957 and Domain Coordination Law of 1977, bureaucrats succeeded in excluding a strong version of the compulsory membership clause and the industry designation clause. And the Basic Law of 1963 was generally acceptable for them. Small business organizations were largely satisfied with the 1957 and 1977 laws. Opposition parties succeeded in modifying all the bills, and the ruling party was satisfied with all the laws. Thus the corporatist and pluralist hypotheses are supported.

Now, the ruling party dominance model hypothesis cannot be supported since the Diet reflected not only policy preferences of the ruling party but also those of other political actors. As I recognized (above p. 130, 162, 191), the model cannot explain why the ruling party makes a compromise with opposition parties in the Diet. Since it commands a majority in the Diet, the ruling party can ram through its bills. The Diet laws help the party to do that (above p. 52).

Mochizuki argued that the unanimity rule and a short Diet period would give the opposition party leverage to draw compromises from the ruling party. But as I discussed (above p. 54-5), these factors may not be decisive. Although they recognized the role for opposition parties, pluralists never really explain why opposition parties can influence the policymaking process. Of course, nobody is entirely lacking political resources (attribute 2 of the pluralist model, above p. 34). But what is the exact mechanism through which political resources generate modifications of the ruling party's policy positions? They cannot answer. In any case, the role and influence of opposition parties is a subject neglected by students of Japanese politics.

The next question about the role of the Diet is what specific function the Diet would play in the policymaking process (above p. 72). The statist hypothesis was that “[t]here is no specific function for the Diet except approving” (above p. 75). The corporatist and pluralist hypotheses were that the “Diet would not specialize in a particular function” (Ibid.). And the ruling party dominance model hypothesized that the “Diet would specialize in the function of directing a cabinet to work on a certain public issue” (Ibid.).

The 1963 case showed that the Diet instructed the Ikeda cabinet to prepare the bill for the basic law and necessary budgetary measures (above p. 152). The 1977 case showed that the Diet instructed the Miki cabinet to introduce the bill for domain coordination law into the next ordinary Diet session (above p. 181). These facts contradict the statist hypothesis that the Diet would rubber-stamp the work of bureaucrats (above p. 75). And the ruling party dominance hypothesis is also contradicted. The 1957, 1963 and 1977 cases all showed that the Diet modified the bills, although the model has predicted that the ruling party would not compromise. The Diet engaged in multiple functions of directing the cabinets, modifying the bills, and holding public hearings. This evidence supports the corporatist and pluralist hypotheses. In sum, regarding the hypotheses on the Diet, the statist and ruling party dominance models score poorly, and the corporatist and pluralist fare well.

XI-C. The Prime Minister

I have asked whether a prime minister can insist on his policy preference against the ruling party” when they have opposite policy preferences (above p. 75). The ruling

party dominance model (RPDM) hypothesized that he cannot (above p. 76). I have failed to derive a hypothesis from the statist, corporatist and pluralist models (Ibid.).

The 1991 case study supports the RPDM hypothesis. It showed that Prime Minister Kaifu had no choice but to support the ruling party's decision not to make a pledge to abolish the Big Store Law in the Structural Impediment Initiative negotiations between Japan and the United States. The 1957, 1963 and 1977 cases did not provide opportunities to test this hypothesis. In these cases, difference between the ruling party and the prime ministers was not clear, and the prime ministers did not oppose the ruling party.

What specific function does a prime minister play in the policymaking process? This was the second question about the role of prime minister (above p. 76). I have failed to derive a hypothesis from the statist model (above p. 78). The corporatist and pluralist hypotheses were that the prime minister would engage in multiple functions (Ibid.). According to the ruling party dominance model, the prime minister would specialize in two functions. First, he would initiate the policymaking process. Second, he would coordinate policy demands among ruling party members.

The 1963 case can be adduced as an evidence for the RPDM hypothesis that the prime minister would specialize in initiating the policymaking process. It showed that Ikeda's vision of the "Doubling Income Plan" (above p. 161) set the nation for a high growth development path. The Small and Medium Enterprise Basic Law was part of this large plan and, the process of enacting the Basic Law was initiated by his plan. It should be remembered that this vision was not shared by a majority of economists (above p. 139)

and was criticized by Fukuda, who became later prime minister. His leadership should be credited.

Except for Ikeda's leadership, however, the case studies do not allow me to say about the role of the prime minister in the policymaking process. As I have noticed (above p. 130, 161 and 190), an active role of the prime minister was not recognized in the case studies. According to the ruling party dominance model, the prime minister should actively coordinate policy demands among ruling party politicians. But the 1957 case study could not confirm an active role for Prime Minister Kishi. And the 1963 case study showed that once he initiated the process, Prime Minister Ikeda seemed to leave the issue to the party. The 1977 case study could not confirm an active coordinating role for Prime Minister Miki when Kōzō Watanabe was working to forge a consensus on the domain coordination bill. Thus the hypothesis cannot be supported. Also, the lack of the active role of the prime ministers in the processes cannot support the corporatist and pluralist hypotheses that the prime minister would engage in multiple functions.

XI-D. Bureaucrats

I have asked if bureaucrats can advance their own policy preferences against the ruling party in Chapter IV (above p. 78). The statist hypothesis was that bureaucrats could (above p. 80). On the other hand, the ruling party dominance model hypothesized that bureaucrats could not (Ibid.). However, I have failed to derive hypotheses from the corporatist and pluralist models (Ibid.).

The 1957 and 1977 cases showed that bureaucrats could not persuade the ruling party to give up the ideas of allowing a government to order small businesses to join a

commerce and industry union (above p. 128) and to order big businesses to terminate their business plans (above p. 190). They believed that these policy ideas would undermine consumer's interests and might be unconstitutional. Although they did not like these policy ideas, bureaucrats could not insist on policy that they thought right against the ruling party. These findings contradict the statist hypothesis, and support the ruling party dominance model.

XI-E. Interest Groups

The question about the role of interest groups was to whom interest groups lobby (above p. 80). I have failed to derive hypotheses from the statist and pluralist models (above p. 81.). The corporatist hypothesis was that interest group should lobby bureaus through the stable consultative relationship (Ibid.). On the other hand, the ruling party dominance model hypothesized that interest groups should lobby the ruling party (Ibid.).

The 1957 case study showed that Ayukawa of the Japanese Political League of Small and Medium Enterprise went to the ruling party to ask the party to advocate the bill that his organization had formulated (above p. 113). The 1991 case study showed that small retailers visited the ruling party to urge the party to oppose the American demand to abolish the Big Store Law (above p. 208). These findings seem to support the ruling party dominance model. But the 1957 case study also showed that representatives of the Federation of Economic Organization met with government officials to express their opposition to the Organization Law of 1957 (above p. 121-2). Thus the case studies contradict both the corporatist and ruling party dominance models. Although some scholars have addressed the issue of to whom interest groups direct their lobbying

activities (above p. 80), the results of the case studies suggest that the direction of lobbying activity will be determined by contingent factors in policymaking process.

XI-F. Power Shift in Policymaking

Against the popular view that there has been a shift in policymaking power from bureaucrats to politicians, I have hypothesized that there is no such a shift between 1955 and 1993 (above p. 83). The reason was that all the elements of the political power structure that enabled the ruling party to monopolize the lawmaking power remained the same between 1955 and 1993.

The 1957 case study showed that the ruling party overruled bureaucrats' skepticism toward the policy idea that the government could order small businesses to join a commerce and industry union (above pp. 129). The 1963 case study showed that the ruling party made sure any legal provision in the text of the Basic Law would not undermine interests of its supporters through prior consultation (above p. 154-5). The 1977 case study showed that the ruling party decided to allow the government to order big businesses to terminate their business plans despite bureaucrats' opposition (above 190). And the 1991 case has showed that the ruling party decided not to abolish the Big Store Law, and bureaucrats were defending the party's policy position against the American negotiators in the Structural Impediment Initiative (above p. 209). These findings do not allow me to find any shift in policymaking power between bureaucrats and politicians between 1955 and 1993. Thus my hypothesis is supported.

XI-G. Limitations of Ruling Party Dominance Model

The ruling party dominance model has explained who the most influential political actor is in the policymaking process and how the most powerful actor exerts influence. The case studies showed that the ruling party reflected its policy preferences on all the crucial points in the four policymaking processes. The case studies also showed that prior consultation was the most effective mechanism for the ruling party to control the process. I believe that the model has provided a better explanation of Japanese politics, compared with statism, corporatism and pluralism. However, there are at least three discrepancies between the model and empirical evidence presented by the case studies.

The ruling party dominance model has generated hypotheses on specific policymaking roles. According to the model, the Diet should specialize in directing a cabinet to work on a certain public issue. Interest groups should lobby the ruling party. All these predictions have turned out to be wrong. Moreover, a prime minister should specialize in the functions of initiating a policymaking process and of coordinating policy demands among ruling party members, according to the model. But the case studies cannot confirm these functions.

Second, the model cannot explain why the ruling party compromises. According to the ruling party dominance model, the ruling party would not compromise with other political actors, whether they are bureaucrats or opposition parties. But the case studies showed that the ruling party did compromise with the opposition parties (above pp. 130, 162, and 191) in the Diet, and even with bureaucrats (above p. 161).

Third, the significance of the appointment power of ruling party leaders on the policymaking process is not recognized, as the ruling party dominance model assumed. As I have noticed (above pp. 128 and 162), the case studies cannot provide opportunity to assess whether different patterns of appointment would have caused different outcomes of the policymaking processes. I have tentatively concluded that whoever sits in important party positions would follow a majority opinion of the party (above p. 162). Even after having conducted all the case studies, the tentative conclusion seems to me valid. The outcomes of the four policymaking processes fairly reflected the majority opinion of the ruling party on the issues. It is hard for me to see that the outcomes would have been different if a different person had occupied chair of the Policy Affair Research Council or chair of Diet Strategy of the ruling party.

Now, how do we interpret these discrepancies? Do they mean that there is a fundamental defect in the model? The first discrepancy might not be a defect of the model. For the hypotheses on the specific functions might be derived wrongly from the model. If so, contradicting wrongly derived hypotheses does not falsify a model from which the hypotheses are derived. Even if the hypotheses are correctly derived from the model, the case studies might not be an appropriate evidence to prove or falsify the hypotheses. Due to the lack of detail information and poor planning, case studies might not be sufficiently constructed to test hypotheses. "Testing theories is an uncertain business", Kenneth Waltz says (1997, 917). One way to evaluate a model is to repeat the process of generating hypotheses from the model and testing them.²⁰⁹

²⁰⁹ For the difficulty in proving and falsifying theories, see Waltz, 1997; Lakatos 1970. Waltz says, "Evaluating a theory requires working back and forth between the implications of the theory and an uncertain state of affairs that we take to be the reality against which the theory is tested" (1997, 916).

The second discrepancy might not be a defect of the model. The “no compromise” proposition is directly derived from the first proposition of the model, that is, the ruling party can monopolize the lawmaking power in the Diet. If the ruling party can monopolize the lawmaking power in the Diet, there is no reason for the party to compromise with opposition parties in the Diet. However, the model does not specify the nature of political actors. If the model assumes that political actors are both self-regarding and other-regarding, there is no surprise to see the ruling party compromise with opposition parties.

The third discrepancy might be a defect of the model. The appointment power of ruling party leaders is part of the political power structure that the model has described. Although the model has argued that leaders would use the appointment power to control the policymaking process, the case studies do not show the effect of the appointment power. One way to explain away this discrepancy might be a methodological one. If I had conducted more focused case studies, I might have found the effect of the appointment power. If this is the case, the third discrepancy is neither a defect nor a limitation of the model.

Another explanation for the discrepancy is that the model has wrongly argued that party leaders would use the appointment power to control the policymaking process. In reality, they do not care most of policy issues; they care only significant policy issues at the moment when they are in power. And when they make appointments, they think mostly about how they could strengthen their own power base; not so much about policy matters. Since the time and energy for party leaders are limited but policy issues that need decisions are countless, they have to be selective. Policy issues that fall out of their

attention are going to be handled by rank-and-file members. When members have made decisions on the issues, leaders simply follow the outcomes. For leaders, appointments and policy issues might not be closely linked.

If this is the case, the third discrepancy might be a defect of the model, because the discrepancy presents an internal inconsistency of the model. The model cannot contain both the argument that party leaders use the appointment power to control policy and the above explanation that party leaders do not care about much of policy when they make appointments. Either the argument or the explanation has to go.

I will revise the argument to maintain the explanation. The argument should be revised as follows: party leaders use the appointment power to increase their political power. This revision is not a serious blow to the model because party leaders are still able to control policy process by prior consultation and voting order. How frequently they do so is an empirical matter, and is irrelevant to the validity of the model.

XII. Conclusion

This dissertation started by asking who is the most influential in small business policymaking, and how the most powerful actor exerts influence. It reviewed the existing three models of Japanese politics. Each model proposes a distinctive type of political power structure and policymaking pattern. In the statist model, bureaucrats play a dominant role, and the policymaking process is top-down from the government to the private sectors. In the corporatist model, the stable consultative relationship between bureaus and peak organizations is focused upon. And in the pluralist model there is no center of political power, and major political actors can influence policymaking process more or less.

I believe that these models do not adequately recognize the power of the ruling Liberal Democratic Party and the way it exerts influence, and have constructed the ruling party dominance model. The hard core of the model is threefold. First, ruling party leaders can monopolize the lawmaking power in the Diet. Second, knowing the fact that the party monopolizes the power, other political actors anticipate the party's reaction and behave accordingly. Third, prior consultation allows the ruling party to monitor bureaucrats to control the policymaking process. To elaborate these three propositions, I have explored in details the power relationships among ruling party leaders, its members, a prime minister, bureaucrats, opposition parties, and interest groups. My discussion of these power relationships constitutes the substance of my model.

Under the ruling party dominance model, the ruling party should overrule other political actors on crucial issues in the policymaking process. The Diet should reflect only the policy preferences of the ruling party. A prime minister could not insist upon his

policy preference against the ruling party when they had different policy preferences. Also, the prime minister should specialize in the functions of initiating policymaking process and coordinating policy demands among ruling party members. Bureaucrats could not advance their policy preferences against the ruling party. And interest groups should lobby the ruling party rather than bureaucrats. These hypotheses are different from those derived from other models. For example, the statist model should predict that bureaucrats persuade the ruling party to adopt their policy preference. The corporatist model should predict that interest groups lobby bureaucrats rather than the ruling party. And the pluralist model should predict that the Diet reflects the policy preferences of all the major political actors more or less.

To examine the hypotheses on policymaking roles for each political actor, I have conducted four case studies of the processes of small business policymaking. The cases were selected by a criterion that each case should be related to a major economic issue that reasonably characterized each decade of postwar Japan. Also, the four case studies are expected to assess the popular opinion that there was a shift in policymaking power from bureaucrats to politicians. The ruling party dominance model predicts that there should be no shift as long as the political power structure that enabled the ruling party to maintain the sole reign of government remained the same. But this means that the model does not apply to Japanese politics after 1993, when the party lost the sole reign. Thus the dissertation does not cover the political power structure and policymaking process under coalition governments.

The legislative process of enacting the Small and Medium Enterprise Organization Law of 1957 was the first subject of the four case studies. The 1950s were

the decade during which Japan rebuilt its economic institutions. And the Law was part of efforts to rebuild small business organizations. The most crucial issue in the process was whether the government should be granted the power to order small businesses to join commerce and industry unions. Bureaucrats opposed the policy idea that the government could compel small businesses to become members of unions. On the other hand, the Japanese Political League of Small and Medium Enterprise, the main interest group that advocated the law, proposed “nearly unconditional and compulsory union membership”. Rejecting policy preferences of bureaucrats and the interest group, the ruling party decided that the government could order nonmembers to join a union on the union’s special resolution.

The subject of the second case study was the legislative process of enacting the Small and Medium Enterprise Basic Law of 1963. The 1960s were the decade when Japan was modernizing industries and enjoyed a high economic growth under Prime Minister Ikeda’s agenda “Doubling Income Plan”. The case study showed that the ruling party made sure through prior consultation that bureaucrats modified legal provisions regarding self-effort, scale of enterprise, labor-management relationships and business opportunity so that the interest of the party’s supporters would not be compromised. Although it accepted the opposition party’s demand to modify the wordings of the text of the bill, the ruling party rejected the opposition parties’ much stronger protective policies for small businesses, such as welfare for employees and upgrading the Small and Medium Enterprise Agency to a ministry.

The revaluation of the yen and two oil crises rocked Japan in the 1970s and ended the high economic growth period. With shrinking profits, big businesses started to

advance into the industries traditionally occupied by small businesses. Facing coming big businesses, small businesses initiated a legislative process of enacting the Small and Medium Enterprise Domain Coordination Law of 1977, which is the subject of the third case study. Bureaucrats opposed the idea that the government could order big businesses to terminate their business activities to protect small businesses. Opposition parties and small business organizations wanted the government to designate industries in which big businesses were excluded. On these crucial issues, the ruling party overruled bureaucrats, opposition parties and interest groups by deciding that government could terminate but not designate.

The last case study has examined a decision-making process of deregulating the Big Store Law in 1990. The issue of the deregulation is part of the mounting trade and economic disputes between Japan and the United State during the 1980s. On the crucial issue of whether the Japanese government should make a pledge to abolish the Law altogether in the negotiations of the Structural Impediment Initiative, the prime minister and the ruling party had opposite policy preferences. Although Prime Minister Kaifu wanted to make such a pledge to please the American president and Japanese consumers, the ruling party rejected his position and decided not to make the pledge. And Suzuki, a bureaucrat of the Ministry of International Trade and Industry, anticipated the intent of the ruling party and negotiated with his American counterparts for the party's position rather than the prime minister's position.

Readers might want to know more about the details of the policymaking process in the four case studies. For example, I wanted to know with whom bureaucrats consulted when they wrote the government draft for the Small and Medium Enterprise

Domain Coordination Law of 1977, whose major policy positions were overruled by the ruling party later. Weren't they concerned with the intent of the ruling party when they wrote it? If they had known the intent of the ruling party and written accordingly, the party might have supported their draft. This kind of information surely would help me to understand more about the policy process and power relationship between bureaucrats and the ruling party. But I could not access such a deep level of administrative documentation. The Information Disclosure Law did not help me very much during my research. Nor could I have access to persons who were involved in deliberation councils. Nonetheless, I have managed to produce the four case studies and hope that they contribute to the understanding of the policymaking process in Japan.

The four case studies examine the hypotheses derived from the statist, corporatist, pluralist and ruling party dominance models. They support major hypotheses and propositions of the ruling party dominance model. On the crucial issues, the ruling party overruled other political actors and reflected its own policy preferences. Prior consultation allowed the ruling party to monitor the legislative activities of bureaucrats. The ruling party could overrule the prime minister when the two actors had different policy preferences. The bureaucrat anticipated the intent of the ruling party and behaved accordingly, supporting the model's second proposition of anticipated reaction. And the four case studies contradicted the popular opinion that the locus of policymaking power has shifted from bureaucrats and politicians in postwar Japan. From the first case study of 1957 to the last one of 1991, the ruling party continued to control the processes. No shift was recognized.

The pluralist model well explains that the active role of interest groups and bureaucrats in policy process and the opposition parties' successes in including their policy preferences in the laws in the Diet. Bureaucrats are active in the policy process by formulating the government drafts and hearing opinions from interest groups. They sometimes succeeded in persuading the ruling party to drop controversial legal provisions from the bills. To this extent, the statist model should be credited. Although its propositions of the delegation of official authority to public actors and the existence of peak organization are not recognized in this dissertation, the corporatist model might be useful to explore further the consultative relationship between bureaus and major interest groups. As the case studies showed, every time bureaucrats start formulating a bill, they invited representatives from a variety of social groups. This procedure becomes a routine in policy processes. It would not be surprise to find a stable consultative relationship emerging.

The implications of the findings of this dissertation are twofold. First, it would be a grave mistake to blame bureaucrats for problems in Japanese politics when the ruling party has power to control them. As I mentioned earlier, there are many Japanese who think that bureaucrats rule Japanese politics. And these people blame bureaucrats for what they perceive as political pathologies. But if the ruling party controls bureaucrats, there is no point in blaming bureaucrats. Such criticism is not only misplaced but also diverts attention from real political reforms.

The second implication of this dissertation is that Japanese polity might have a high sensitivity to public opinions. The electorate grants a ruling party authority to rule. And the ruling party can largely control which civilian inputs should be included in

public laws. It is very easy for the public to identify who is responsible for the state of the nation. If the state of the nation is good, the public can continue supporting the ruling party. And if not, the public can vote out the ruling party. The ruling party knows this, and thus works hard to figure out what kind of public policy would please a majority of the voters. On this score, the Liberal Democratic Party was very successful between 1955 and 1993.²¹⁰ Even after 1993, except for a brief moment, there has been no party that can command more confidence from the public than the Liberal Democratic Party can.

Although the ruling party dominance model has accurately recognized the policymaking power of the ruling party and discerned how the party exerts its power, there are, at least, three discrepancies between the model and empirical evidence that the case studies have presented. The model's hypotheses on specific functions in the policymaking process have mostly turned out to be wrong. It cannot explain why the ruling party compromises with other political actor in the policymaking process. And the case studies are not able to confirm the effect of the appointment power of ruling party leaders as the model has asserted. To address these discrepancies, I have revised the model's argument that party leaders use the appointment power to control policy process.

Also these discrepancies might suggest directions for future research. One area of research might be about the power and policy role of opposition parties in Japan. When and on what conditions is the ruling party likely to yield to opposition parties? Another area of research might be about the power and policy role of prime minister. Although this dissertation has ended up painting a passive image of prime minister, this image does

²¹⁰ The LDP's response to public demands for better environment and welfare in the 1970s is the best example of its sensitivity to public opinions.

not fit well with my general observation of Japanese politics. Prime ministers are the center of the political world, at least at the level of media coverage. They are the focus of public attention in the Japanese people. I believe that the role of prime minister must be more significant than what I have described here. Finally, I hope that this dissertation would contribute to the understanding of how coalition governments differ from LDP governments. Is there any change in the type of civilian inputs under coalition governments? How much do LDP leaders compromise with junior coalition partners in order to keep them in a coalition government? These three areas of research might be explored in the future.

Appendix: A Catalog of Small Business Policy

Major laws in book concerning small business policy as of 1999 are listed below. Small business policies can be divided into twelve categories (Teraoka, 1997, 34-35).

1. Modernization

Modernization policies are aimed at helping entrepreneurs to install new and efficient equipment in their factories. Modernization was the major pillar of the policy framework under the old Basic Law. Major laws are as follows.

- a. The Small and Medium Enterprise Modernization Fund Subsidy Law [Chusho Kigyo Kindaika Shikin tou Jyosei Ho] (1956);
- b. The Small and Medium Enterprise Modernization Promotion Law [Chusho Kigyo Kindaika Sokushin Ho] (1963);
- c. Textile Industry Improvement Provisional Measure Law [Seni Kogyo Kaizen Rinji Sochi Ho] (1967);
- d. Subcontracting Small and Medium Enterprise Promotion Law [Shitauke Chusho Kigyo Shinko Ho] (1970).

2. Enterprise Inauguration [Shinki kaigyo]

Enterprise inauguration policies help entrepreneurs to start their own business. This is the main policy pillar of the new Basic Law. Major laws of this category are as follows.

- a. New Business Law [Shinki Jigyo Ho] (1989);
- b. Small and Medium Enterprise New Business Advancement Facilitation Law [Chusho Kigyo Shinki Jigyo Shinshutsu tou Enkatsuka Ho] (1993);
- c. Small and Medium Enterprise Creative Activity Promotion Law [Chusho Kigyo Sozo Katsudo Sokushin Ho] (1995); and
- d. Law concerning the Promotion of New Business Generation [Shin Jigyo Soshutsu Sokushin Ho] (1998).

3. Structure Conversion and Business Conversion

Policies in this category try to cut excessive supply capacity in a particular industry, and to help companies in such industry to advance into new or different industry where more demand is expected.

- a. New Domain Development Promotion Provisional Measure Law [Shin Bunya Kaitaku Sokushin Rinji Sochi Ho] (1986);

- b. Provisional Measure Law for Specific Small and Medium Entrepreneurs Business Conversion Policy [Tokutei Chusho Kigyosha Jigyo Tenkan Taisaku Rinji Sochi Ho] (1986);
- c. Provisional Measure Law concerning the Promotion of Specific Facility by Utilizing the Capability of the Private Sector [Minkan Gyosha no Noryoku no Katsuyou niyoru Tokutei Shisetu no Seibi no Sokushin ni kansuru Rinji Sochi Ho] (1986);
- d. Small and Medium Enterprise Distribution Business Improvement Promotion Law [Chusho Kigyo Ryutsu Gyomu Koritsuka Sokushin Ho] (1992); and
- e. Law concerning the Aid to Restructuring of Small and Medium Enterprises [Chusho Risutora Shien Ho] (1995).

4. Management and Technology Improvement

Policies in this category are aimed at seeking managerial improvements through the development and manufacture of new products, the development and provision of new services and the introduction of new methods of production and sales.

- a. Small and Medium Enterprise Guidance Law [Chusho Kigyo Shido Ho] (1963);
- b. Small and Medium Enterprise Technology Development Promotion Law [Chusho Kigyo Gijyutsu Kaihatsu Sokushin Ho] (1985); and
- c. Small and Medium Enterprise Management Renovation Aid Law [Chusho Kigyo Keiei Kakushin Shien Ho] (1999).

5. Organization

Organization policies are aimed at helping individual small businesses form cooperatives or trade associations in order to take advantage of the scale of economies. Production, research & development and purchasing are sometimes better done if numerous and small enterprises are united. And trade associations are useful in disseminating information, standard and technology.

- a. The Small and Medium Enterprise Cooperative Union Law [Chusho Kigyo to Kyodo Kumiai Ho] (1949);
- b. Law concerning the Financial Business of a Cooperative Union [Kyodo Kumiai no Kinyu Jigyo ni kansuru Horitsu] (1949);
- c. Law concerning the Optimization of the Management of Environment Sanitation Related Businesses [Kankyo Eisei kankei Eigyo no Unei no Tekiseika ni kansuru Horitsu] (1949);
- d. Commerce and Industry Chamber Law [Shoko Kaigisho Ho] (1950);
- e. Small and Medium Enterprise Stabilization Law [Chusho Kigyo Antei Ho] (1952);

f. Small and Medium Enterprise Organization Law [Chusho Kigyo Dantai no Soshiki ni kansuru Horitsu] (1957); and

g. Small and Medium Enterprise General Public Corporation Law [Chusho Kigyo Sogo Jigyodan Ho] (1999).

6. Bankruptcy Prevention

The government helps set up an office for bankruptcy prevention in each Chamber of Industry and Commerce [shoko kaigisho] and Commerce and Industry Club [shoko kai]. The office is staffed with lawyers, accountants and consultants for help entrepreneurs to set their business in right order.

a. The Small and Medium Enterprise Bankruptcy Prevention Mutual Aid Law [Chusho Kigyo Tosan Boshi Kyosai Ho] (1977).

7. Labor and Welfare

Policies in this category address the matters relating to the training of workers, pension, and subsidy to projects improving working conditions.

a. Minimum Wage Law [Saitei Chingin Ho] (1959);

b. Small and Medium Enterprise Retirement Fund Mutual Aid Law [Chusho Kigyo Taishokukin Kyosai Ho] (1959); and

c. Law Facilitating the Improvement of Employment Management Control to Secure the Labor Force at the Small and Medium Enterprises [Chusho Kigyo ni okeru Rodoryoku no Kakuho no tameno Koyo Kanri no Kaizen wo Sokushin suru Horitsu] (1993).

8. Enterprise Domain Coordination and Fair Transaction

Policies in this category are aimed at improving the status of small businesses vis-à-vis big businesses. Some measures tried to make it cumbersome for big businesses to advance into industries that are traditionally occupied by small businesses. Other measures tried to prevent big businesses from imposing harsh transaction conditions on small businesses.

a. Subcontract Fee Payment Delay Prevention Law [Shitauke Daikin Shiharai Chien tou Boshi Ho] (1956);

b. Retail Commerce Coordination Special Measure Law [Kouri Shogyo Chosei Tokubetsu Sochi Ho] (1959);

c. Law Securing Government Procurement for Small and Medium Enterprises [Kankojyu ni tuite no Chusho Kigyosha no Jyuchu no Kakuho ni kansuru Horitsu] (1966);

- d. Big Store Law [Daikibo Kouri Tenpo ni okeru Kourigyo no Jigyo Katsudo no Chosei ni kansuru Horitsu] (1973);
- e. Enterprise Domain Coordination Law [Chusho Kigyo no Jigyo Katsudo no Kikai no Kakuho no tameno Daikigyosha no Jigyo Katsudo no Chosei ni kansuru Horitsu] (1977); and
- f. Imported Goods Shop Law [Yunyuhin Senmon Uriba no Secchi ni kansuru Daikibo Kouri Tenpo ni okeru Kourigyo no Jigyokatsudo ni kansuru Horitsu no Tokurei ni kansuru Horitsu] (1991).

9. Regional Economy

Some policies in this category try to facilitate a concentration of enterprises of the same industry into a particular area in order to take advantage of economies of scale and external economies of scale.²¹¹ And other policies help traditional craft industries to survive.

- a. Okinawa Promotion Development Special Measure Law [Okinawa Shinko Kaihatsu Tokubetsu Sochi Ho] (1971);
- b. Specific Area Small and Medium Enterprise Policy Provisional Measure Law [Tokutei Chiiki Chusho Kigyo Taisaku Rinji Sochi Ho] (1986);
- c. Law concerning the Accumulation of the Specific Enterprise to Contribute to the Modernization of Special Industry [Tokubetsu Sangyo no Kodoka ni Kiyo suru Tokutei Jigyo no Shuseki ni kansuru Horitsu] (1988); and
- d. Traditional Craft Industry Promotion Law [Dentoteki Kogeiin Sangyo Shinko Ho] (1974).

10. Very Small Enterprise

Policies for very small businesses are to provide finance and expertise for management, tax, accounting, and social security. Chamber of Commerce and Industry [shoko kaigisho] and Commerce and Industry Club [shoko kai] in major cities house staffs to answer questions that very small businesses are likely to ask.

- a. Very Small Enterprise Mutual Aid Law [Shokibo Kigyo Kyosai Ho] (1965);
- b. Household Labor Law [Kanai Rodo Ho] (1970); and
- c. Law concerning Aid to Very Small Entrepreneurs through Commerce and Industry Club and Commerce and Industry Chamber [Shokokai oyobi Shoko Kaigisho ni yoru Shokibo Jigyosha no Shien ni kansuru Horitsu] (1993).

11. Commerce

²¹¹ External economy of scale is “reduction in the average costs of a firm as a result of the expansion of the whole industry of which it is part” (Rutherford, 1992, 163). External economies of scale happen when the whole industry in a particular region is “large enough to support the pool of skilled labor, the specialized suppliers, and the flow of knowledge” (Krugman, 1994b, 227; Krugman, 1997, 147). For example, Silicon Valley is an example of industrial concentration that enjoys external economies of scale.

Policies in this category are aimed at revitalizing commerce districts usually located in the center of city. Programs help members of commercial district to have events and beautify streets. Subsidy is provided to projects making facilities suitable to the elderly, protecting environment and facilitating recycling.

- a. Shop District Promotion Union Law [Shotengai Shinko Kumiai Ho] (1962);
- b. Small and Medium Retail Promotion Law [Chusho Kourigyo Shinko Ho] (1973);
- c. Special Measure Law concerning the Facilitation of Specific Commerce Accumulation [Tokutei Shogyo Shuseki ni kansuru Tokubetsu Sochi Ho] (1991);
- d. Small and Medium Enterprise Distribution Efficiency Promotion Law [Chusho Kigyo Ryutsu Gyomu Koritsu Sokushin Ho] (1992); and
- e. Central District Activation Law [Shigaichi Kasseika Ho] (1998).

12. Finance and Surety

The government prepares a variety of financial benefits. Most benefits are provided by governmental financial institutions such as Japan Finance Corporation for Small Business, National Life Finance Corporation and Commerce and Industry Union Central Bank [Shoko Chukin].

- a. Commerce and Industry Union Central Safe Law [Shoko Kumiai Chuo Kinko Ho] (1936);
- b. National Finance Corporation Law [Kokumin Kinyu Koko Ho] (1949);
- c. Small and Medium Enterprise Surety Insurance Law [Chusho Kigyo Shinyo Hoken Ho] (1950);
- d. Small and Medium Enterprise Finance Corporation Law [Chusho Kigyo Kinyu Koko Ho] (1953);
- e. Surety Guaranty Association Law [Shinyo Hosho Kyokai Ho] (1953);
- f. Small and Medium Enterprise Surety Insurance Corporation Law [Chusho Kigyo Shinyo Hoken Koko Ho] (1958);
- g. Machine Surety Insurance Law [Kikai rui Shinyo Hoken Ho] (1958);
- h. Small and Medium Enterprise Investment Facilitation Company Law [Chusho Kigyo Toshi Ikusei Kaisha Ho] (1963); and
- i. Investment Business Union Law [Toshi Jigyo Kumiai Ho] (1998).

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