

Japan: Policies for Promoting Economic Development

Changing Patterns over Time



Policy Design and Formulation in Developing Countries

Topics for Consideration

- ❑ One of the key determinants of long-term economic performance is the effectiveness of policy making method.

Economic performance =

Private dynamism + Policy quality + External factors

Promote  Control, mitigate 

- ❑ A nation's policy pattern and capability change over time. They are influenced by the quality of national leaders and technocrats, political structure, burning issues of the day, and the mindset and interests of citizens.
- ❑ A nation's capability to cope with crises seems to have long-term cycles. Japan had periods of effective policy responses and periods of policy failures. Each cycle seems to last several decades.
- ❑ How such policy cycles are generated is difficult to explain, and whether we can control/influence them remains unclear.

Three Cases of Development Policy Making

1. Meiji Japan (1850s-80s) - **Flexible politics with many leaders**

When feudal Japan was forced open by the West and faced the risk of colonization, it had to define new national goals, and decide how to achieve them and who would do it. Political reform, industrialization and military buildup were pursued under a flexible form of politics.

2. MITI's industrial policy (late 1950s to 1960s) - **Bottom-up**

The national goal was clear—recover from war defeat and catch up with the West. MITI was given a broad mandate and many policy tools to achieve this. MITI took initiative in formulating various strategies; networking with private businesses, other ministries and key politicians; preparing the draft law; implementation; and monitoring the progress.

3. Abe Shinzo & Suga governments (2013-2021) - **Top-down**

PM Abe and PM Suga took away policy authority from bureaucrats. Policies were created by PM or PM advisors. They used the authority to appoint high officials to subjugate ministries, and officials became fearful of PM and his advisors. This led to the demoralization of technocrats and prevalence of *sontaku* (pleasing the boss by reading his mind and bending the rules).

Phases of Meiji Transformation



1853 to 1858 Western shock and panic

- ❑ Feudal Japan governed by samurai was pruned open by the threat of the Black Ships (American battleships—photo).
- ❑ Japan was forced to sign unequal commercial treaties with the West (no tariff right, no right to judge foreign criminals).

1858 to 1881 Transition Period (re-defining goals & plans)

- ❑ National goals and roadmaps are debated, contested and decided.
- ❑ Little change in players or political pattern (except expulsion of the ruling Tokugawa family).

1880s to 1890s Implementation Period (executing the plan)

- ❑ Political reform—Meiji Constitution under strong emperor (1889), first election and parliament (1890)
- ❑ Industrialization—joint stock company booms (late 1880s-), textile industrial revolution (1890s), overtaking UK in cotton export (early 20c)
- ❑ Military expansion—victory against China (1894-95) & Russia (1904-05).

Flexible Structure of Meiji Politics (Banno & Ohno Hypothesis, 2010)

明治維新 1858-1881
坂野潤治+大野健一



講談社現代新書
2031

Three dimensions of flexibility: 1858-1881

(1) Evolution of goals

- Late Edo: 2 goals of *Fukoku Kyohei* (rich & strong han) and *Kogi Yoron* (feudal assembly)
- Early Meiji: 4 parallel goals of *Fukoku* (industrialization), *Kyohei* (foreign campaign), Constitution and Parliament

(2) Flexibility in coalition building

- Groups continued to form and re-form as situations changed. No group monopolized power for long.

(3) Flexibility of leaders and leading groups

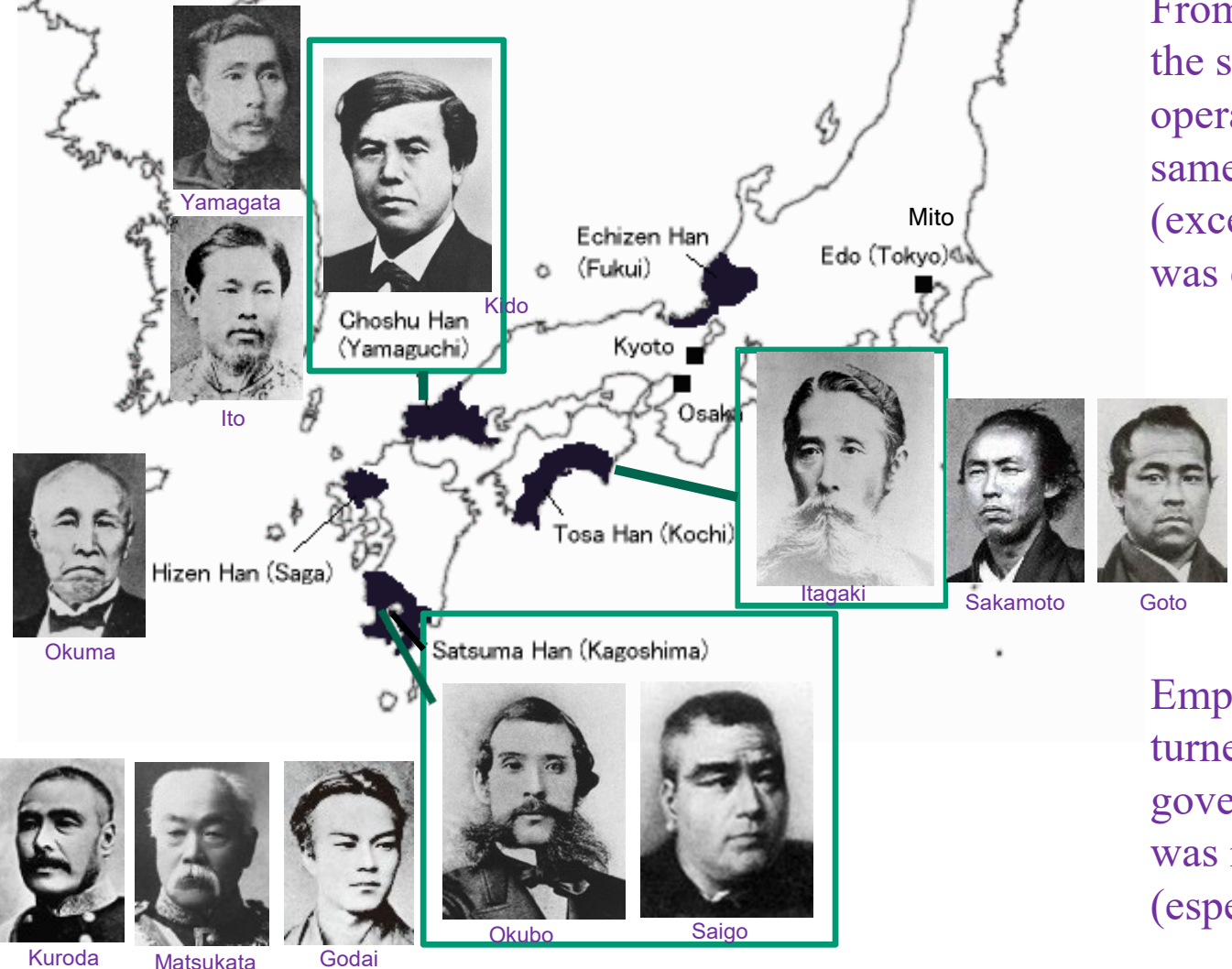
- Policy priority of each leader evolved and solidified over time.
- Leading group was able to embrace multiple goals and adjust policy

Meiji politics was fundamentally different from East Asia's Post-WW2 developmental dictatorship (Korea, Taiwan...) which featured one strong long-serving leader, political rigidity, and pursuit of economic growth at the cost of democracy.

Green box: four prominent leaders of Meiji revolution

Meiji revolution was driven by samurais in dynamic hans (domains, provinces) in Western Japan.

From late Edo to early Meiji, the same political mechanism operated with basically the same leaders who were many (except Tokugawa family that was expelled in 1868).



Emperor Meiji, who just turned 15 when new government was established, was not the true leader (especially in his early years).

Evolution of National Goals over Time

Kogi Yoron (公議輿論 government by public deliberation)

Deliberation
among 4 or 5
wise daimyos



Feudal
assembly by
303 hans and
bakufu



Upper House
by daimyos &
Lower House
by lower
samurais



Western style
Constitution

VS

Western style
Parliament



British style
multiple party
democracy

VS

German style
constitutional
monarchy

Edo

Meiji

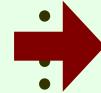
Fukoku Kyohei (富国強兵 enrich country, strengthen military)

Each han:

Trading house
(Export traditional
products for profit)

Import weapons
(Buy cannons, guns,
battleships from West)

- Mercantilism
- Bargaining
power against
other hans and
Bakufu



State-led industrialization
with Western machines and
technology (Okubo)

VS

Military expedition to rest
of Asia (unhappy samurais)

-Developmental
ism
-Budget conflict
between 2 goals

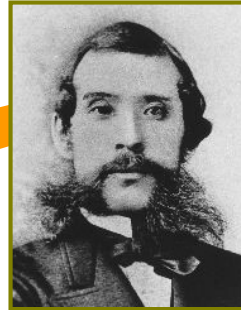
Edo

Meiji

Flexibility in Coalition Building

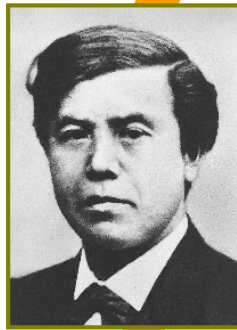
Industrialization

Naichi Yusen
(internal reforms first)



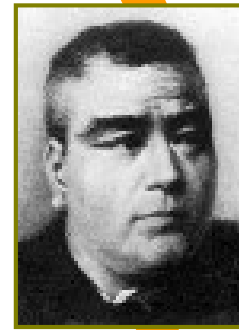
Fukoku Kyohei
(rich country, strong military)

Constitution



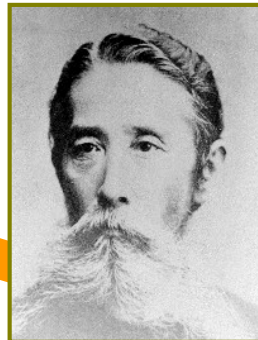
Okubo (Satsuma)
1830-1878

Foreign expedition



Kido (Choshu)
1833-1877

Parliament



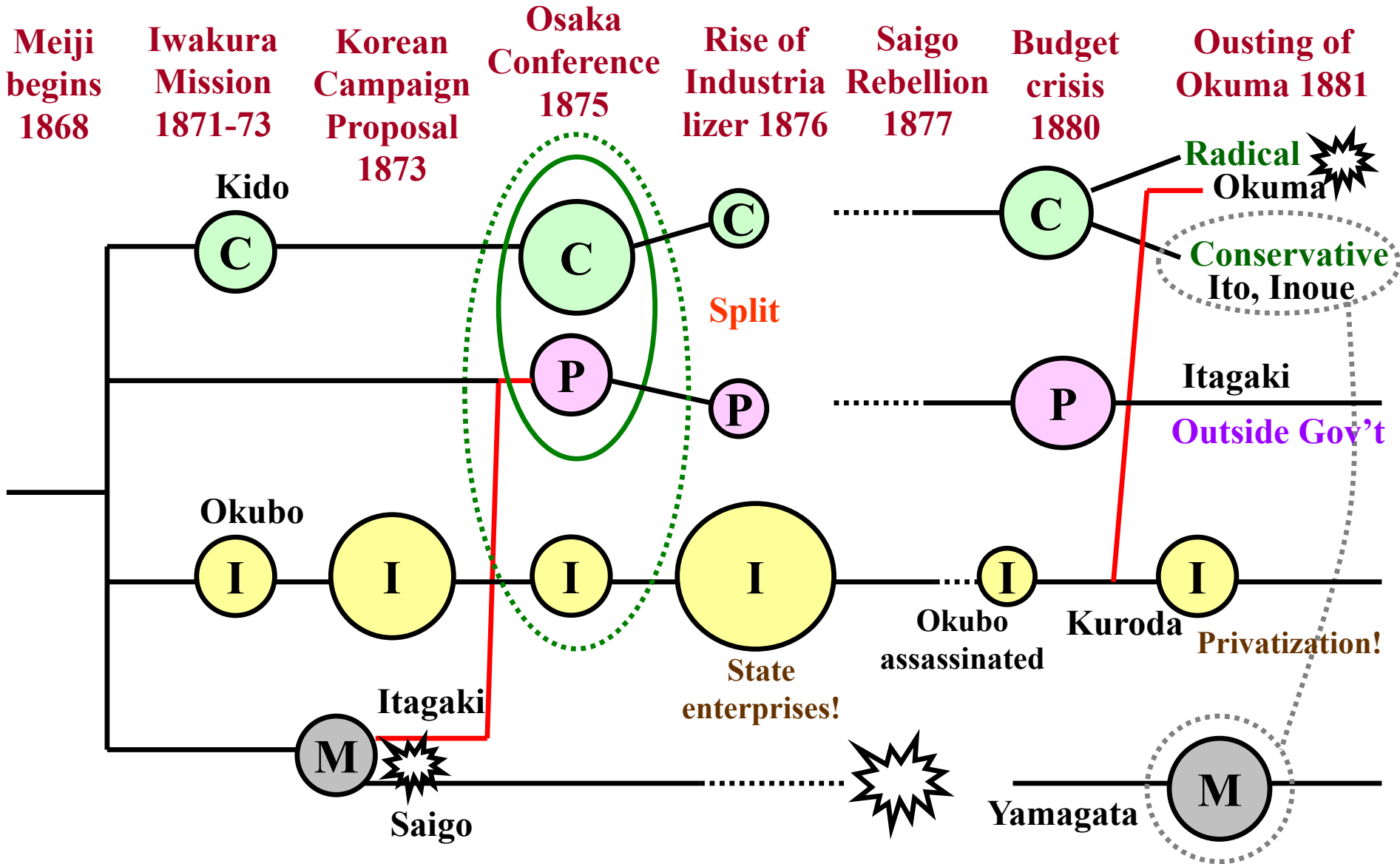
Saigo (Satsuma)
1827-1877

Kogi Yoron
(democratization)

Seikanron
(Korean expedition plan)

Itagaki (Tosa)
1837-1919

Flexible Politics: How Various Factions Joined and Separated



Factions-- C: constitution P: parliament I: industrialization M: military

Consequences of Flexible Coalition Forming

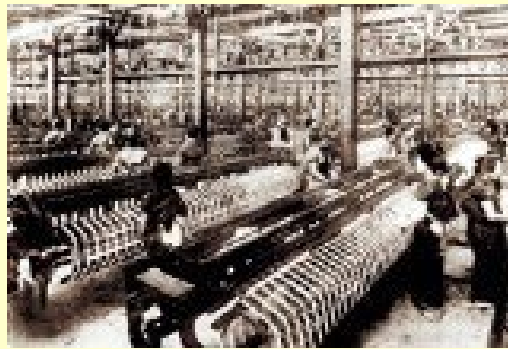
- ❑ There were many national leaders. No single person or group dominated, and each formed coalition with others to pursue policies.
- ❑ As situations changed, coalitions were re-formed every few years. No coalition lasted for very long.
- ❑ Trust and goodwill existed among leaders up to final confrontation.
- ➔ **Despite internal rivalry, political flexibility with the common goal of defending and developing Japan led to the attainment of multiple goals without extreme swings or mutual destruction.**

Political reform



Promulgation of Meiji constitution (1889)

Industrialization



Osaka Spinning Company (est.1882)

External expansion



Victorious war against Russia (1904-05)

MITI's Industrial Policy, late 1950s-60s

- ❑ The Ministry of International Trade and Industry (MITI) was created in 1949 by merging the Ministry of Trade and Industry, the Coal Agency and the International Trade Agency. Later, in 2001, it was renamed to the Ministry of Economy, Trade and Industry (METI). Functions basically remained the same.
- ❑ Various policy instruments were prepared for MITI in the late 1940s to early 50s. They were not unique to Japan but MITI used them more effectively than most others—tax incentives, subsidies, policy loans, technical support, SME promotion, entry regulation, industrial zones, regional development plans, etc.
- ❑ MITI excelled in working with the private sector, knowing different intentions and challenges of individual firms, and coordinating and guiding them under the existing Japanese political practices and social constraints.
- ❑ MITI officials were competent and politicized technocrats. They drafted policies bottom-up within MITI and vis-à-vis government and parliament. They were creators of industrial policy, not passive executors of orders coming from above.
- ❑ Japanese industrial officials, both central and local, were dedicated to national goals and worked hard with low compensation and little corruption.

1960s: Income Doubling Plan



PM Ikeda Hayato



Shimomura Osamu

- ❑ Japan was highly divided and politicized in the 1950s with a split between pro-US capitalism and pro-labor socialism. Confrontation culminated in 1960 with the Miike Coal Mine Strike and the renewal of the Japan-US Security Treaty. In both cases, the capitalist side won.
- ❑ PM Ikeda Hayato (in office 1960-1964) turned to economics as a new national focus. He proposed to double people's income within ten years.
- ❑ Shimomura Osamu, economic advisor of PM Ikeda, offered feasibility arguments for the Income Doubling Plan.
- ❑ The Ministry of Finance (MOF), the Ministry of International Trade and Industry (MITI) and the Economic Planning Agency (EPA) were three key organizations to execute this plan. Receiving general policy mandate from top leaders, they could propose and execute details.
- ❑ Per capita real income rose 2.44 times between 1960 and 1970 (average annual increase of 9.3%). The plan was over-achieved.

Why MITI was Effective

Wada Masatake, former MITI official serving the ministry during 1966-96

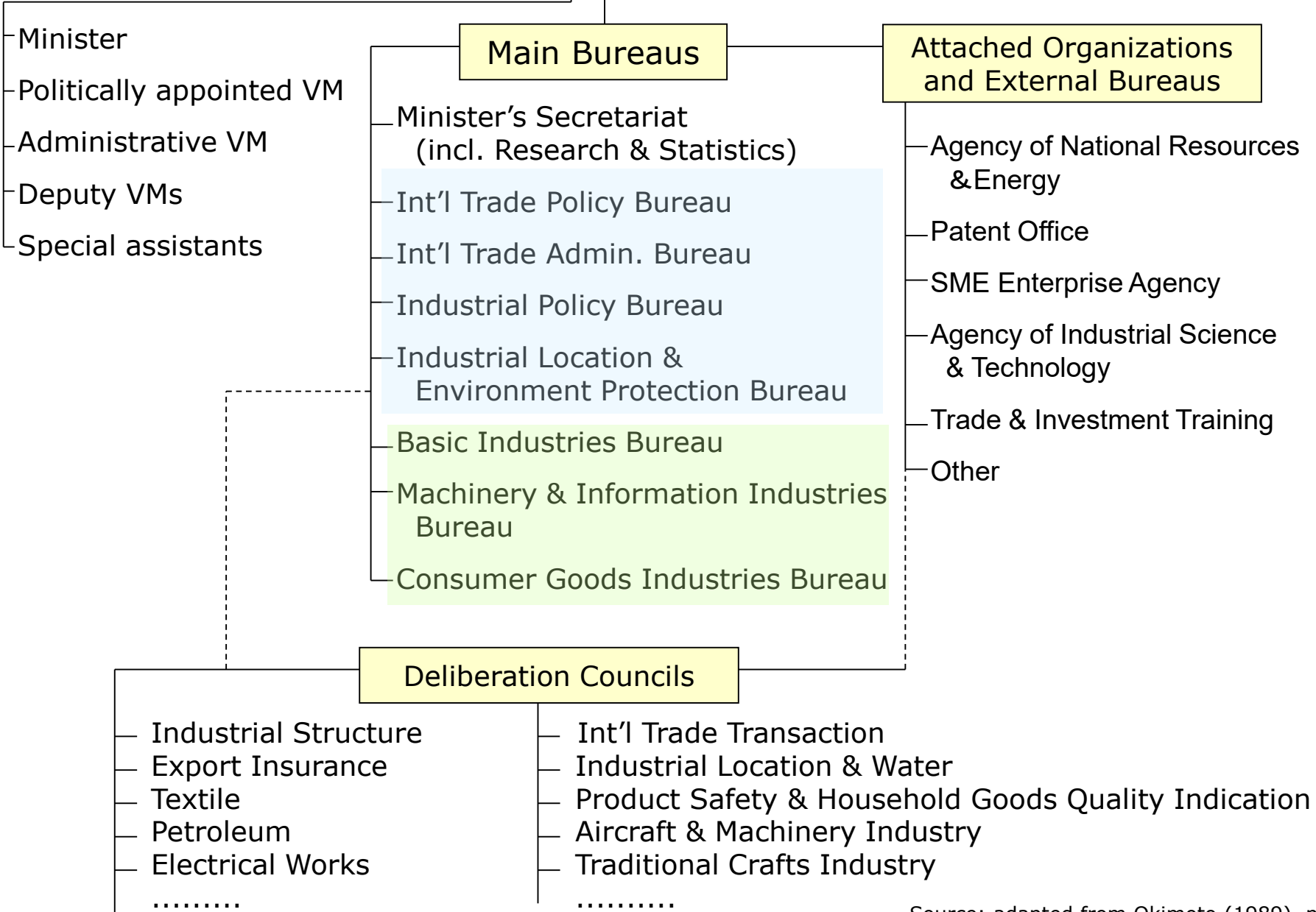


- 1. Broad perspective and capacity**—MITI had visions, monitoring capability, broad and worldwide information networks, and flexibility to respond to changes in economic, political and global situations.
- 2. Clean and good relationship with politics**—MITI submitted policy proposals to politicians who deliberated on them. Politicians also requested MITI to study certain issues and propose policy measures. MITI as a professional body kept a neutral stance vis-à-vis politics.
- 3. Close and frequent communications**—MITI acted as a communication hub between policy organizations (ministries, local governments, policy implementing organizations, etc.) and policy beneficiaries (business and industrial associations, individual firms).
- 4. Thick information network with private sector**—MITI and businesses shared the same awareness and future visions. Industrial policy was a joint work between MITI and business circles, and this improved policy efficiency.

- 5. Internal structure**—MITI was composed of vertical and horizontal bureaus. The former were responsible for sectoral issues and the latter managed common issues across sectors. This mechanism provided good balance. MITI staff rotated every 2-3 years to experience many positions, including overseas placement, to cultivate a broad perspective.
- 6. Private trust**—private businesses appreciated and relied on MITI's policy capacity and fairness in gathering and analyzing information and making judgement.
- 7. Strong motivation of MITI staff**—despite low salary, MITI staff were very proud to work on industrialization, which was a big national dream. They were very concerned about Japan's future, and organized private study meetings inviting academic and business people after working hours. During the catch-up phase, the national goal was clear and opportunity was immense.

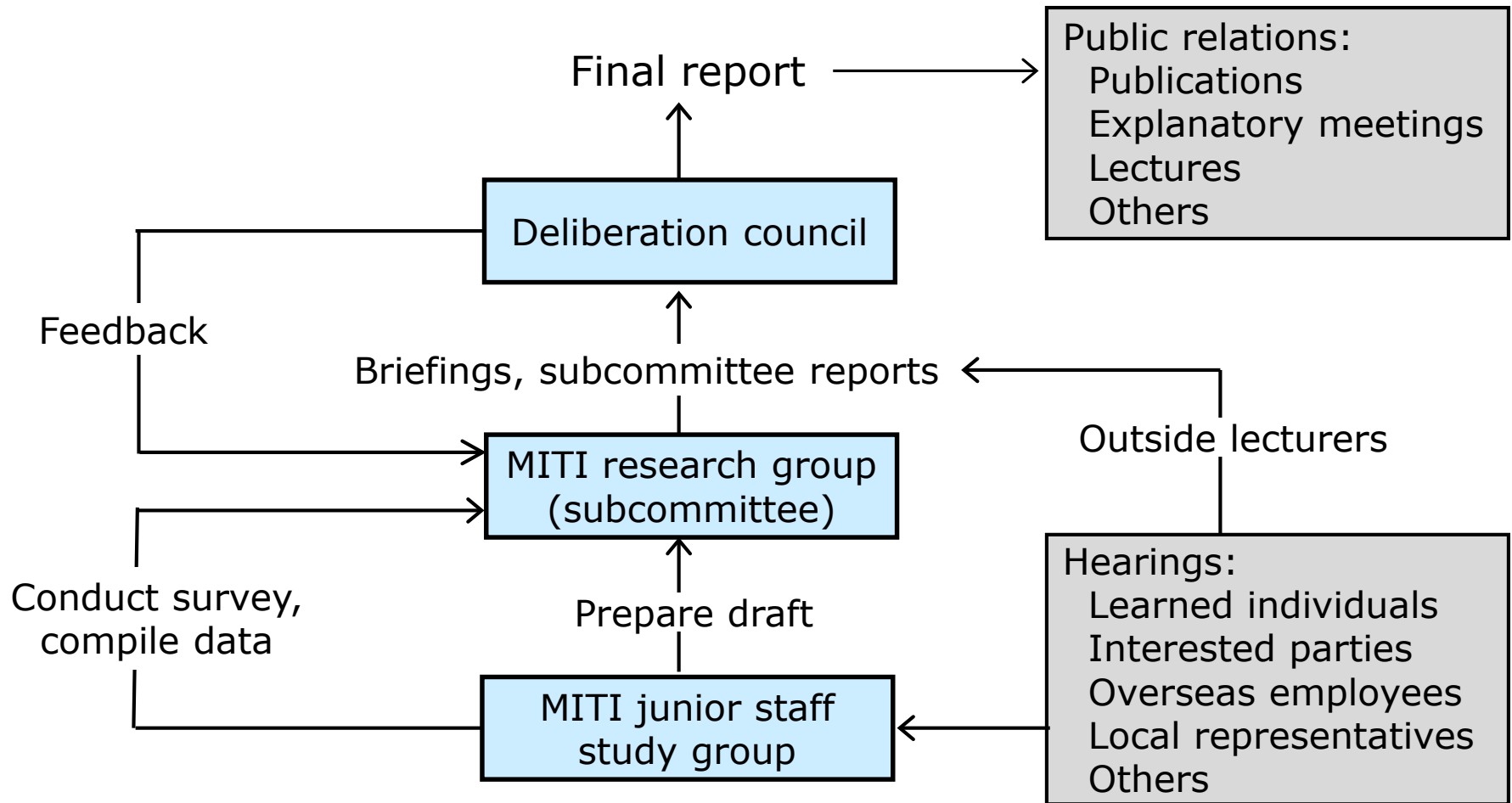
Organization Chart

MITI



Source: adapted from Okimoto (1989), p.117.

MITI's Policy Making Was Bottom-up



Young officials in their 30s actively gathered information and interacted with stakeholders, thus having substantive influence on final result—unlike in most other countries where young officials only take orders from above and do what was assigned.

Source: Ono (1992); original graph was rearranged so reporting direction goes from bottom to up.

Japanese Politics in the 21st Century



Koizumi
2001-2006



Liberal Democratic Party (LDP) 1955-1993, 1996-2009



Democratic Party of Japan (DPJ) 2009-2012



Abe No.2 2012-2020

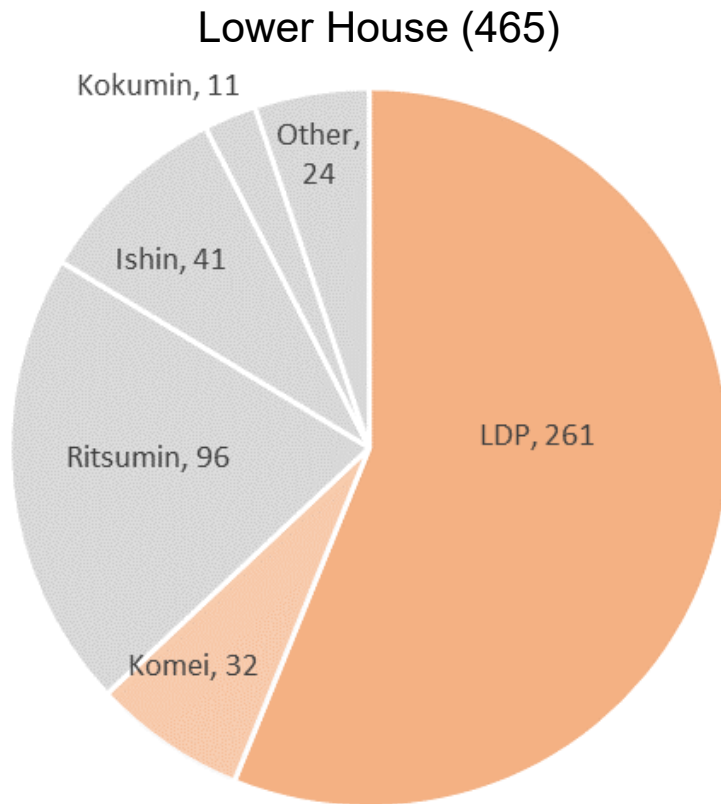
LDP 2012-



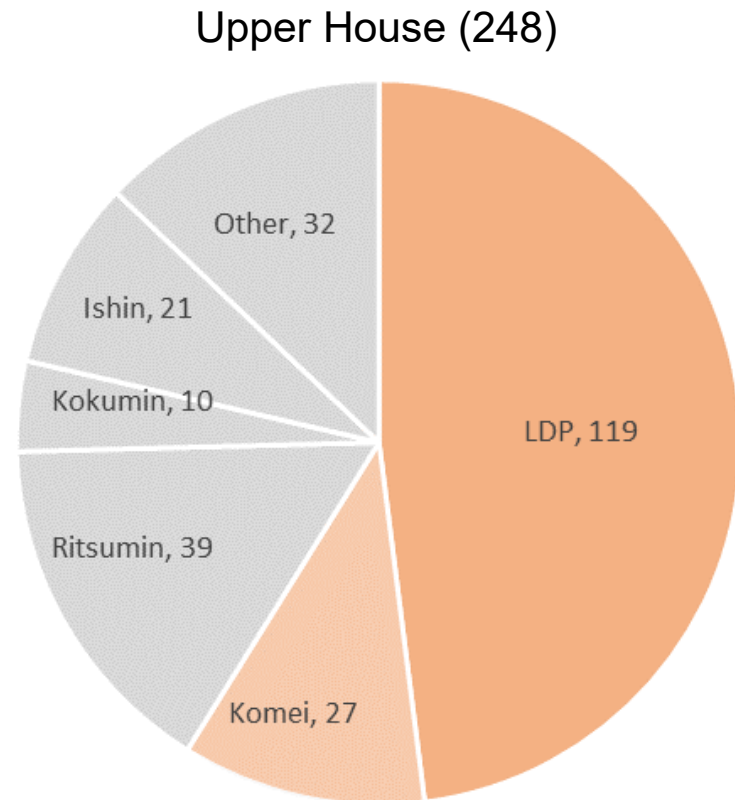
- ❑ Between Koizumi and Abe no.2, there were 6 weak prime ministers in 6 years (including Abe no.1).
- ❑ Abe in his second term (2012-2020) emerged as a powerful and active PM both domestically and internationally.
- ❑ There was a hope of transition from “1955 Regime” (LDP dominance) to two-party competition. But this was not realized due to DPJ’s failure. LDP’s rule continues because opposition parties remain too weak and fragmented to challenge LDP.
- ❑ LDP, in coalition with Komeito Party, has the majority in both houses and can pass any law after formally debating them.

Dominance of LDP-Komei Coalition

Ruling party coalition has majority in both Houses due to weak and fragmented opposition parties (which often merge, split and change names); LDP-Komei coalition can pass any law after debating it formally and superficially in the parliament.



Situation after October 2021 election. The term of the House of Representatives is four years.



Situation after July 2022 election. The term of the House of Councillors is six years with half elected every three years.

Abe Ikkyo (Dominance), 2012-2020



PM Abe

LDP (ruling party): ignored



Kantei (PM Office)

Chief Cabinet Secretary Suga & appointed PM advisors
(seconded from ministries)



- **Policy orders**
- **Budget allocation**
- **Authority to appoint high ministerial officials**

MOF

METI

MOFA

...

...

Ministries

Subjugated as mere implementer,
no longer policy initiator

PM Abe changed policy style from ministerial bottom-up to Kantei top-down. Power to appoint key ministerial officials was a new and powerful tool.

Top-down policy making works if PM and Kantei advisors are wise and pragmatic. In reality, they seemed to lack experience and knowledge. Their policies were hastily made without sufficient preparation or consultation.

PM Abe's Domestic Policy Initiatives

- ❑ Abenomics (revitalizing the Japanese economy)
- ❑ Mobilizing women in labor market
- ❑ Reversing *shoshika* (low birthrate)
- ❑ Revitalizing rural economies
- ❑ Supporting SMEs (including investment abroad)
- ❑ Supporting irregular and part-time workers to achieve higher income, better working conditions and transition to regular workers
- ❑ Work-life balance—less overtime, elimination of *karoshi* (death or suicide due to overwork)
- ❑ Importing more foreign labor to overcome labor shortage
- ❑ Digital transformation (inherited by Suga)
- ❑ Coping with COVID-19 (inherited by Suga)
- ❑ Tokyo Olympics and Paralympics 2020 (inherited by Suga)



Three Arrows of Abenomics

On June 14, 2013, Prime Minister Abe issued a message upon the formulation of “Japan Revitalization Strategy.”



1. Aggressive monetary policy (“New Dimension”)

- PM Abe appointed BOJ Governor Kuroda Haruhiko (Mar. 2013)
- Dispel deflation mindset—inflation target of 2 percent within 2 years
- Monetary easing with new asset purchases (REIT, etc.), doubling monetary base and BOJ’s government bond holding within 2 years
- Correction of high yen (done)

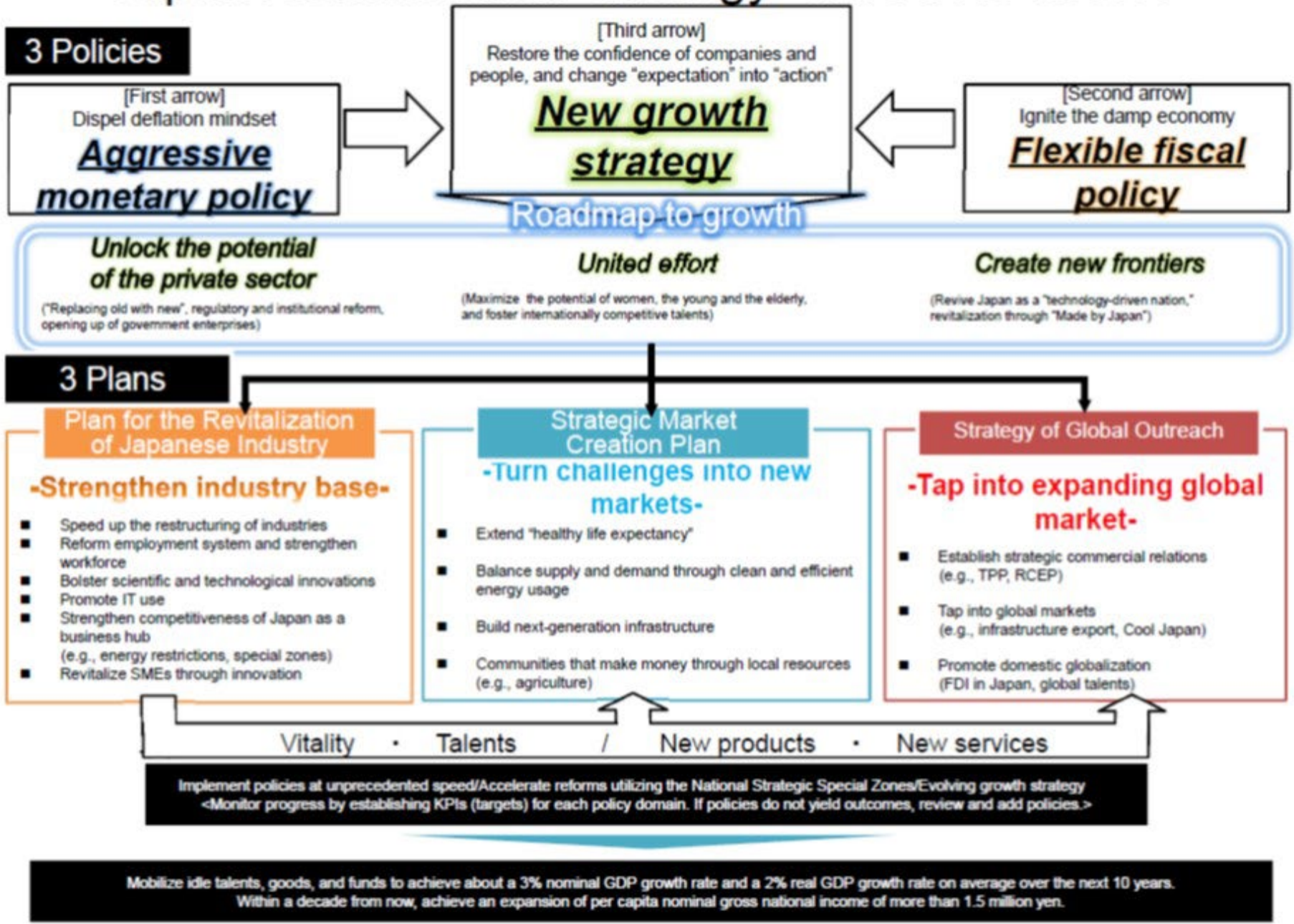
2. Flexible (active) fiscal policy

- Revive economy first, consolidate budget later
- Increase infrastructure investment

3. New growth strategy (cabinet decision in June 2013; after this, a new cabinet decision is issued every June to expand or revise the strategy)

- Japanese Economy Revitalization Headquarters formed; under it, Industrial Competitiveness Conference
- Three roadmaps and three plans (12 pillars, 37 items, 56 sub-items) proposed in 2013; revisions and additions every subsequent year.

Japan Revitalization Strategy -JAPAN is BACK-



Plan for the Revitalization of Japanese Industry 1 (major policies) - +3 more

① Speed up the restructuring of industries (accelerating structural reform program)

Target: 10% increase in capital investment over the next three years and a return of private investment to pre-Global Financial Crisis levels (approx. 70 trillion yen annually [FY 2012: approx. 63 trillion yen])
Raise current 5% business startup and closure ratio 10% range on par with the US and UK

■ Stimulate business investment

- Develop support measures, such as bold tax breaks and measures to speed up the replacement of old equipment/facilities, and new systems that utilize lease arrangements in order to stimulate investment in leading-edge facilities.

■ Accelerate business restructuring and reorganization

- Strengthen corporate governance. (e.g. amendment of Companies Act [promoting the installation of external directors])
- Develop support measures, such as tax breaks and financial support, for companies that restructure their business.
- Formulate guidelines and encourage restructuring in fields with excessive supply.

■ Promote investment in business ventures

- Measures to promote investment in business ventures.
- Consider fund raising framework such as crowd funding.
- Improve the personal guarantee system, which currently inhibits business startups.

■ Build an environment that encourages entrepreneurialism

- Create a system that assures legality of businesses in "gray zones".
- Create a special arrangement measure for Corporate Field Tests to allow testing of new products and technology.

■ Enact the Industry Competitiveness Enhancement Bill (provisional name)

② Reinforce human resource capabilities and reform the employment system

Target: Decrease long-term unemployment (unemployed for more than 6 months) by 20% over the next five years and raise employment turnover to 9% (2011: 7.4%)
Boost the employment rate of women aged 25 – 44 to 73% by 2020 (currently 68%)
Get at least 10 universities to rank in the world's top 100 (currently 2) within the next five years

■ Shift from a policy of employment stability to labor fluidity

- Boldly shift budgetary resources from Employment Adjustment Fund, which are designed to sustain employment, to labor movement facilitation fund to support the job transfer and are designed for skill development.

■ University reforms (the next three years are designated as period for accelerated reform)

- Human resource and payment reform including the introduction of annual salaries and combined earnings with external revenue. University governance reform.
- Expand the strategic and priority allocation of "operating support funds."

■ Strengthen development of human resource cultivating capabilities for global operation activities

- Provide English education at an earlier stage of elementary school.
- Create a Super Global High School (provisional name)
- Provide opportunities to study abroad for all students who have the desire and talent.
- Utilize TOEFL or other relevant tests in the National Public Service exam and university entrance exams.

■ Utilize highly skilled overseas personnel

- Revise the current accreditation criteria and preference of the points-based preferential immigration treatment for highly skilled foreign professionals in order to provide permission for stay to the professionals.

■ Strengthen the social function of private employment and recruitment agencies

- Provide private employment and recruitment agencies with employment offers information from the Public Employment Security Office "Hello Work" and status to handle job creation grant.

■ Support the success of women in the workplace

- Support companies that provide opportunities to improve the skills of staff on maternity leave and employees who have recently returned to work.
- Support re-employment, i.e. re-education programs and internships for homemakers.

■ Accelerate the zero childcare waiting list project

- Arrange childcare for additional about 200,000 children in over the next two years and aim for the elimination of "childcare waiting lists" by securing childcare arrangements for another about 400,000 children by 2017.
- Provide funding to small-scale childcare services, non-registered childcare facilities and employer-provided childcare services.

■ Support the success of youth in the workplace

- Support voluntary efforts to undertake education and training program that will lead to the acquisition of qualifications or licences and encourages re-training and re-education after graduation.

The Growth Arrow of Abenomics

Expanding and Revising Every Year without Achieving Results?

The cabinet approves a growth package every June with new catchy phrases. However, it is difficult to produce real-sector results quickly. Targets seem too many and too random without proper execution or monitoring. The annually revised Growth Arrow has become a shifting wish list and a guideline for ministries to receive additional budget allocation.

- 2014** New Growth Strategy, Recovering an earning power, Producing workforce, Reform rock-solid regulations, Energy, Tourism
- 2015** Revised Japan Revitalization Strategy 2015, Abenomics Stage 2, Productivity revolution through investment for future, Local Abenomics, Reform 2020: PPP projects for growth
- 2016** 100 Million Total Success, raise GDP from 500 to 600 trillion yen, Fourth Industrial Revolution, higher birth rate, keeping jobs while taking care of old parents, promoting inbound FDI and Japan Brand
- 2017** Future Investment Strategy, Reforms toward Society 5.0
- 2018** Human Power Revolution, Productivity Revolution, working style reform, receiving new foreign labor, etc.

Other Hasty and Ineffective Policies

Japan now drafts policies hastily without necessary research and preparation, and without deep consultation with key stakeholders. As a result, implementation is haphazard and ineffective. Examples:

- ❑ **My Number Card** (citizen's electronic ID card) was introduced suddenly in 2016 without sufficient explanation or deliberation. Local governments were unprepared, there was little time to produce cards, and people were not convinced of its advantages.
- ❑ **Immigration control law** was revised in 2019 to receive more foreign workers to ameliorate labor shortage, but without sufficient preparation. That created confusion in Vietnam, the largest source of unskilled labor to Japan. Details were not specified in the law but only gradually decided as problems arose.
- ❑ **Covid-19 vaccination** was slow because government did not assist domestic pharmaceuticals to produce vaccines, arrange imports, or solve medical service bottlenecks during the first year (2020). The shortage of vaccines, the gap between busy and idle hospitals and clinics, and the problem of unattended serious patients emerged.