

**Political Transitions in Dominant
Party Systems**
Learning to lose

**Edited by Edward Friedman and
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7 Learning to lose is for losers

The Japanese LDP's reform struggle

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In the fall of 2005, specialists on Japanese politics were salivating with analytic anticipation at the reappearance of political uncertainty within that country's usually predictable politics. The long-ruling Liberal Democratic Party (LDP), in power almost continually since 1955, was at serious risk of losing its parliamentary majority in elections scheduled for September 11, 2005 (a date not without irony). The party's electoral difficulties were most immediately the result of its own internal divisions over a proposed reform of the national postal system championed by Prime Minister Koizumi. Koizumi treated the bill as emblematic of his broader efforts at political and economic reform. Yet the specific issue was also a symptom of the much deeper division within the party, a division that might be thought of as being between "continuity" and "change," "resistance" and "reform," or, more economically specific, between "pork" and "productivity."

The LDP, as a result of its coalition with the small New Komeito, enjoyed a clear majority in the Lower House of Parliament as well as a functioning majority in the Upper House. However, the prime minister's postal reform bill only narrowly passed the Lower House and then was defeated in the Upper House on August 8, 2005. Negative votes or abstentions by LDP members, normally subject to tight party discipline, had created the problem. Determined to punish those party members who had impeded his pet legislative project, Koizumi treated the defeat as a no-confidence vote, dissolved the Lower House and called for Lower House elections.

Koizumi's clear intent was to punish those party members who had impeded his proposal by denying them the party's endorsement in the election, and (in most cases) by running fresh new LDP candidates, known as assassins, against them, thereby forcing his opponents to run as independents or as members of some other party. Most were older politicians from rural districts anxious to protect their longstanding power positions against Koizumi's agenda of economic reform. Koizumi, in turn, sought to obliterate, or at least to weaken, such internal dissidents, replacing them where possible by "reformers" loyal to him and his policy agenda.

The strategy was hardly without risks. At least two were obvious. First, the election created vitriolic competition between the incumbent dissidents and new official LDP challengers in 33 of Japan's single-member districts (two

additional dissidents chose not to run). Such head-to-head competition enhanced the possibility that any potential LDP vote would be split two ways, leaving the door open for candidates from the opposition Democratic Party of Japan (DPJ) to capture winning pluralities in these multiply-contested seats. A parliamentary majority for the DPJ could shut the fragmented LDP out of power. A second risk was that many of the dissidents could rely on longstanding electoral strength within their districts, win election as independents, rejoin the LDP, and carry out a purge of a thus weakened Koizumi and his "pro-reform" followers. Under either scenario the LDP could have splintered in several ways, leading to a much deeper party reorganization that could have effectively diminished or even eliminated the party.

As it turned out, Koizumi's strategy proved to be brilliant (although he was no doubt helped by the tactical ineptitude of his opposition). Koizumi effectively cast the entire election as one pitting "reform" against "resistance" and in turning most voter and media attention to the intra-LDP battles rather than to issues raised by the opposition. In effect, he managed to equate "pro-reform" with "pro-Koizumi" with astonishing results. Going into the election, the LDP held 212 seats in the Lower House; when it was over it had 296 (61.7 percent), a level never before enjoyed by any postwar Japanese party. The opposition DPJ meanwhile was devastated, falling from 177 to 117 seats. Moreover, among LDP candidates the Koizumi forces did spectacularly well. Thirty-three dissidents were denied party endorsement and against each of them Koizumi dispatched his generally young, personable and media-savvy assassins. A substantial number were women (his "lipstick ninja"). Only 15 of the 33 dissidents succeeded in defending their seats; two others were defeated in their single-seat constituencies but were returned through proportional representation. Meanwhile, 14 of the Koizumi assassins won; another 12 gained seats through proportional representation (*Asahi Shimbun*, September 12, 2005). And with 296 LDP members in parliament after the election, Koizumi had no incentive whatsoever to follow earlier precedents by allowing dissidents who had won seats to rejoin the party following the election. Without question, Koizumi had carried out a successful intra-party purge of his major opponents while simultaneously crushing the opposition DPJ. Following the election the now transformed LDP was hard pressed not to support the Koizumi reform proposals.

The particulars of the election and the struggle that preceded it raise a more intriguing political problem that goes well beyond Japan. How does a political party like the LDP, one which has enjoyed virtually unchallenged dominance for the better part of half a century, go about adjusting itself when the political conditions that once sustained it no longer prevail? Unlike authoritarian regimes where single-party dominance may result simply from unshackled mobilization of state power or a continued changing of the rules of competition, long-term dominance within a democracy requires ongoing social and economic adaptation by the dominant party (Pempel 1990). Particularly intriguing is the question of how such adaptation and reform occur when the party in question continues to hold office. Introspection and potential metamorphosis are surely easier and more

compelling when a party is out of power. Yet, when control over office, and the powers that it brings, have been the vital glue that has kept the party together, the very loss of office may undermine the party's *raison d'être* and thus the party itself. This was a lesson learned in 1993–4 when the LDP was in opposition for the first time in its history, subject to fragmentations and probable dissolutions. For the LDP at that time, as with the Koizumi election 12 years later, "learning to lose" was little more than a suicide pact. Far better was to "learn how not to lose again."

To appreciate the recent situation and to shed light on the broader problem of a once-dominant party facing possible loss of control, this chapter is divided into three main parts. The first provides a brief summary sketch of the one-party dominant conservative regime under which the LDP flourished politically, a system frequently referred to as the "1955 system," reflecting the year in which the LDP was formed and which began its long-term rule. The next section examines the key structural changes that undermined the LDP's continuity in power when it split and lost office in 1993, and that continued to haunt the party since its return to power in 1994. The third section examines these internal party tensions and efforts to resolve them through public policy measures, highlighting the contest over the LDP's continuity but also the internal battles in the party precisely over its future direction.

Japan's one-party dominant regime

Elsewhere I have described Japan's one-party dominant regime as involving a mutually reinforcing mixture of institutions, a socio-economic coalition and public policies (Pempel 1998). In essence, Japan's so-called 1955 system involved a self-sustaining equilibrium among institutions, policies and socio-economic blocs that engendered a "positive cycle of reinforcing dominance." That cycle was upended in the early 1990s when the economic bubble burst (1991) and the LDP split (1993). Longstanding predictabilities gave way to a decade of political fluidity as the country ambled toward a new system based on unaccustomed relationships that are likely to shape and structure Japanese politics for several decades to come.

For most of the period from 1955 until roughly 1990, this reinforcing interplay among institutions, socio-economics and public policy kept the LDP in office for longer, and with fewer coalitional or oppositional constraints, than in any other democracy in the industrialized world (Pempel 1990). The "1955 regime" was complicated and has been described in great detail in various studies (Pempel 1998 *inter alia*). But for our purposes the following points are most central. When it was formed in 1955, a period in Japan that Samuels (2003: 230) astutely characterizes as one of "fluid ideological borders and political desperation," the Liberal Democratic Party (LDP) was a cobbled-together alliance of highly diverse constituencies united less by any agreed-upon policy agenda than by common opposition to the recently unified Japan Socialist Party (JSP) leavened by a shared desire to divvy up the spoils of office (Ōtake 1996). Formally and institutionally united under the LDP umbrella, the newly merged conservatives were continually

cleft internally by numerous issues including security, rearmament, ties to China, education, and constitutional revision, among others.

On economics, however, potentially divisive tensions among the party's competing constituencies were resolved by particularly fortuitous compromises. Economic nationalism remained an overarching umbrella—improving the national economy's competitive standing was a sweepingly accepted goal—but there were sharp divisions over the specific mechanisms by which to do so. Big business, many government agencies and former bureaucrats in the LDP such as Ikeda, Kishi, Fukuda, and Sato leaned heavily toward bureaucratically-led industrial policies, tightly balanced budgets, and rapid technological improvement of large-scale firms, domestic oligopolization, and the aggressive pursuit of export markets. Economically, their principal focus was on rapidly improving national productivity.

Equally importantly, however, many of the new party's most powerful politicians represented constituencies where small businesses and farming were the strongest voices in the economic choir. As such, these politicians were less hospitable to the productivity-based orientations of the first group, demanding instead local protection from both urban Japanese businesses and from overseas imports. Constituent interests drove such politicians to embrace classic pork-barrel politics, intra-national redistribution of governmental tax revenues, and the maintenance of a social safety net designed to prevent market forces from undercutting key businesses and employment bases in their districts. If such policies contravened tightly balanced budgets, so be it (Ōtake 1996: 110–46). Schlesinger (1997: 109) captures the LDP's consequent inclusiveness by suggesting that the party was a vehicle for both “the bagmen and the statesmen.” Alternatively phrased, the party represented an alliance between “pork and productivity.”

The ingenuity of the LDP lay in its accommodation of competing socio-economic and political elements through a fusion of high growth and local protection. As is well established, various government policies and considerable corporate creativity gave Japan an exceptionally productive economy with high growth rates from the early 1950s until at least 1990. But equally vital to the party's longevity was control over the public purse and the regulatory powers that came with controlling the reins of government.

Productivity was fused with pork, building into Japan a strong “welfare” component, but one that was radically different from the model prevalent in much of Western Europe. The Japanese safety net focused not on providing public assistance for disadvantaged *individuals*. Rather, government programs aided economically distressed or slow-growing geographical *areas* and economic *sectors*. In theory, such assistance offered the time needed to make difficult structural transitions. In fact, just as many individual social welfare recipients in Europe became progressively dependent on public subsidization for their livelihood, so in Japan the various forms of government aid left numerous Japanese regions, economic sectors, and individual corporations little more than semi-permanent wards of the Japanese treasury. Local LDP parliamentarians received large blocs

of votes from these wards in exchange for delivering regular state welfare checks in the form of pork barrel projects or regional subsidies.

The shotgun marriage of these two broadly different constituencies—pork and productivity—rested on continued conservative control over governmental offices, high growth and the consequently expanding budgetary resources available to the Japanese government. Numerous front and back channels with varying degrees of legality and illegality enriched party coffers, financed party leaders, and kept potential opponents at an impoverished distance from the ever-more-lucrative public money spigots.

In an October 3, 2006 editorial, the *New York Times* wrote the following in response to alleged cover ups by Republican party leaders of the Mark Foley page scandal: “History suggests that once a political party achieves sweeping power, it will only be a matter of time before the power becomes the entire point. Policy, ideology, ethics all gradually fall away, replaced by a political machine that exists to win elections and dispense the goodies that come as a result. The only surprise in Washington now is that the Congressional Republicans managed to reach that point of decayed purpose so thoroughly, so fast.” The example of the Republicans, with total dominance of American national political institutions for only six years, was more than paralleled by that of Japan's LDP which ruled for 38 years before its split. Though it began with a variety of ideological and policy goals, over time holding power gradually became the major *raison d'être* for the party. Or as Gerald Curtis (1988: 43) wrote five years before the LDP's split “...the single most impressive characteristic of this ruling party over the past thirty years has been its total commitment to the goal of winning Diet majorities and retaining political power.” Simultaneously, as Ethan Scheiner (2005) has demonstrated so ably, opposition parties faced the difficult hurdles of fiscal centralization and LDP clientelism. And the longer the opposition was kept out of power the more difficult it was for them to gain credibility as an alternative to LDP governance. Mutual recognition by all LDP party members of the incalculable political benefits accrued by perennial LDP control of public office, as well as the financial and regulatory powers that came with it, facilitated in turn the resolution of most intra-party disputes over economic policies.

Meanwhile, almost all national bureaucratic agencies enjoyed tightly delimited spheres of regulatory control over, and regularized interactions with, competing socio-economic constituencies. Thus, the Ministry of Finance had virtually sole responsibility for the country's banks and financial institutions, the Ministries of Agriculture and Construction provided powerful links to the rural areas, MITI was the agency most closely tied to big firms and oligopoly, but with an Agency for Small Business also being under its purview holding an explicitly different representational mandate.

The LDP oversaw these networks primarily through the functionally-specific committees on its Policy Affairs Research Council (PARC). PARC committees paralleled the country's various cabinet offices and bureaucratic agencies. And over time, individual LDP parliamentarians interested in particular areas of policy gained credibility as members of *zoku* (tribal) groups serving as legislative

advocates. Horizontal coordination and integration of separate spheres of national economic activity was less the practice than was their vertical separateness (e.g. Yamamoto 1972: 115). Essentially, policy oversight and any tentative proposals for change involved a number of "iron triangles" each composed of a bureaucratic agency, one or more interest groups and selected LDP politicians. Agreement within these functionally-specific triangles was a prerequisite to new proposals reaching the cabinet and parliament. The system thus provided little room for independent cabinet initiation or extensive horizontal coordination among agencies or affected interests or for parliamentary give-and-take. Over time, such vertically organized networks became ever more deeply entrenched and difficult to dislodge. With time many became implacable impediments to sustained economic productivity.

Japan's economic policies represented what I have characterized as "embedded mercantilism" (Pempel 1998, 1999). Japan's domestic markets were effectively closed to most foreign products and investments capable of challenging Japan's domestic industries. This went a long way toward protecting the LDP's pork constituency but it also provided a nurturing soil within which Japan's globally competitive firms could thrive, enhancing the nation's productivity. With the home market largely closed to outside penetration, such firms moved to dominance in the home market and then on to exporting their best products globally. Along with their smaller domestic subcontractors and distributors, such firms were the vital engines of Japan's high growth economy for the first 35 to 40 years after the end of World War II. Meanwhile, firms and sectors lacking such global competitiveness and whose primary markets remained domestic nevertheless survived by virtue of the entrenched system of politically enhanced protection and oligopolistic privileges at home. The resultant "national economy" was in fact an oil and water combination with some parts highly sophisticated, productive and closely integrated with global markets (the productivity component) and other parts predominantly dependent on protected national markets, almost totally buffered from global challenges and competition (Japan's pork component).

Long-term LDP rule depended on, and in turn was critical to the fusion of, these two dramatically different streams. A sequence of LDP-run governments pursued economic politics free from hard choices between its two potentially competing constituencies. High growth by large globally competitive firms generated ever-rising treasury incomes that allowed the ruling politicians to dole out extensive levels of pork and protection. The party grew accustomed to—indeed it thrived on—economic policies driven by the seemingly antagonistic logics of growth and redistribution.

Blisteringly hot GNP growth rates from the 1950s until 1990–1 meant government revenues spiraling continually and automatically upward. This in turn allowed officials to undertake new policy initiatives without having to make offsetting cutbacks in support for inefficient sectors. Progressively more costly over time, economic protection of Japan's least competitive sectors—construction, distribution, financial services, air transport, road freight, food, agriculture, and small business generally—could be sustained without automatically undercutting

the broader competitiveness of firms in areas such as automobiles, consumer electronics and machine tools.

Internal party cohesion among LDP members was enhanced by the party's ongoing and solid electoral majorities. The opposition parties were marginalized and could be shut out of most policy formation, making it progressively more difficult for these opposition groups to gain credibility as an alternative government or to attract appealing and upwardly mobile political candidates. For most of the period from its formation in 1955 until the party split in 1993, the LDP held control of virtually all cabinet positions as well as nearly 2:1 majorities over the next strongest party in both houses of parliament, and hence had relatively free rein in the formation of public policies. This combination of strong parliamentary majorities, extensive regulatory control, and high economic growth allowed the party to undertake a number of internal adjustments on policy matters, often preempting programs pushed by the opposition. As the LDP dominance continued, smart up-and-coming political aspirants were drawn disproportionately into its orbit. The LDP as an organization became the magnetic core of party politics attracting top-heavily large numbers of ambitious younger politicians to its ranks. In the terms of Albert Hirschman (1970) the incentives for individual party members to "exit" the LDP were low while those toward party "loyalty" were continually reinforced.

Also softening intra-party economic tensions was Japan's multi-member, single-ballot electoral system. That system enabled candidates to the Lower House to be elected with as little as 12–15 percent of the district's total vote. Hence, two, three, four, or theoretically even five different LDP parliamentarians could be elected from the same district, even if (perhaps particularly if) they embraced somewhat different constituencies and supported different policy goals. By voting their most narrow preferences, voters from even the most particularistic groups (dentists, veterans, grocers, etc.) could gain some measures of parliamentary representation. National party policy positions got short shrift during electoral competition while personalistic and clientelistic politics drove most campaigns (Miyake 1985; Kobayashi 1991; Kabashima 2004).

The electoral system also made it particularly difficult to vote *against* the party in power. With only one ballot per voter and as many as five representatives per district, it was far more common for citizens to vote against individuals whom they opposed by shifting votes to another candidate of the same party or to a nominal independent who, post election, would affiliate with the ruling LDP. It was extremely difficult for opposition parties to mobilize allegedly unhappy voters against the LDP as a party when the LDP had more than one representative in the district.

Extensive gerrymandering further bolstered the overrepresentation of the LDP's pork contingent. Rural districts could often elect parliamentarians with one-third or fewer votes than were needed to win in urban areas. And rural areas continue to account for roughly one-third of all the seats in the Lower House of parliament. It is there that conservatives were strongest and where the new opposition parties—and any demands for economic liberalization, deregulation

and an end to subsidies—faced their greatest hurdles. Meanwhile, as Japan became a more urban and suburban country, rural overrepresentation militated against the easy translation of such socio-economic and demographic changes into political power. Pork began to trump productivity.

In all of these ways, Japan's political system privileged many of the country's least economically viable geographical areas and economic sectors. Control of government office, internal oligopoly, protectionism, and high growth by the country's globally competitive firms and sectors, in turn, buffered less-productive areas and sectors from the "creative destruction" of market competition. The model however could only be sustained if the LDP retained political control, and as long as the economic growth of the country continued. Yet the very policies that ensured economic growth created new conditions that undermined key structures critical to the model's original success. The question became how to adjust—and after its loss in 1994—how to learn from losing, and how to win again.

Challenges to one-party dominance

Critical to the end of the 1955 system and posing the most formidable challenge to continued LDP rule was the 1993 splintering of the Liberal Democratic Party (LDP) and the formation of Japan's first non-conservative government since 1947. The LDP had split over a host of issues, largely related to a combination of electoral reform proposals and internal contests for party leadership. But it had not anticipated the actual loss of power. Surprisingly, the now-fragmented LDP saw its 38 years of government control replaced by a highly improbable seven-party coalition. From August 1993 until June 1994, the LDP was out of office, effectively given the opportunity to "learn how to lose." Quickly, party leaders concluded that any such lesson, however morally beneficial it might have been, was decidedly unwelcome. Out of office, the party was buffeted by internal bickering and a continued trickle of defections. As Curtis (1999: 187) so aptly characterized the situation "[h]aving been in power for nearly forty years, LDP Diet members had developed campaign strategies that were rooted in their ability to deliver concrete benefits to their constituents. Political power was the oxygen that kept the LDP alive. If deprived of this political oxygen for some months longer, many of its Diet members, facing an impending election under the new, predominantly single-member-district, electoral system, might well have concluded that they would be better off joining the coalition and running as candidates of a party that was in government rather than remain in the opposition in the LDP." Vital to the party's continuation, in the eyes of its leaders, was a return to office. The mechanism by which they returned to office proved brilliant.

Essentially, had the shaky ruling coalition of prior opposition parties held together long enough to deprive the LDP of the spoils of office, it is probable that the LDP would have continued to fracture and would have been incapable of sustaining itself for more than a year or so. Coalition kingmaker, Ozawa Ichiro, however, assuming that the Social Democratic Party of Japan (SDP), one of the core elements in the seven-party coalition, had no viable alternatives, ignored its

policy demands and pressed his efforts to marginalize the socialists as part of his broader efforts at party system restructuring. This opened up political space for the LDP. In an ideologically astonishing move, the LDP, following a series of high-level meetings with SDP leaders in late June 1994, forged a "strange bedfellows" coalition with their longstanding *bête noir* by offering the prime ministership to SDP head, Murayama Tomiichi. The SDP and its socialist agenda had become increasingly marginalized due to its failure to adjust to changes in Japan and elsewhere; it had been almost completely discredited with the collapse of the USSR. Yet suddenly, because of the tactical needs and negotiating skills of the LDP, it was suddenly in a powerful negotiating position. Once the LDP was back in (a coalition) government, Murayama quickly made a series of policy adaptations that undercut his party's few longstanding positions, with the result that the party was all but eliminated in its next electoral test, leaving the LDP again in a commanding position.

From 1994 until the present the LDP has remained the largest party in parliament, once again dominating all subsequent government coalitions. Its prior hegemony was compromised by its post-1994 necessity to rely on coalition partners (usually the former Clean Government Party, CGP). Furthermore, for much of the time, internal party divisions made policy coherence, particularly on economics, all but impossible. Still, even though Japan's one-party dominance had changed it had hardly been eradicated. Most importantly, the LDP, after returning to power, faced pressures to adjust its policy agenda and to confront previously papered-over economic policy divisions and new institutional arrangements. Related changes in three areas are most critical to understanding both the problems of the LDP and the broader tensions undermining the more extensive "1955 system."

The first of these changes centered on *socio-economics and demographics*. The very economic success of long-term conservative rule created a socially and economically reconfigured Japan, strikingly different from the Japan that the LDP first came to govern. Most tangibly, Japan by the early 1990s had become a vastly more urban, middle-class and older country than when the LDP was formed in 1955. Naturally enough, these shifts affected the LDP's electoral base and the demands on public policy. In 1960 just under 60 million Japanese lived in large cities; by 1990 this figure was up to 95 million or over three-quarters of the total population (Nihon Kokusei Zue 1991: 68). Conservative electoral support in the large cities dropped precipitously between the 1960s and the 1990s (Ishikawa and Hirose 1989: 73–85). Only continued success in Japan's less urbanized areas kept the LDP in office. But even strong rural support could not permanently overcome the broader demographic shifts affecting the country. Thus, in the 1955 election, 43 percent of the LDP's vote had come from farmers; by 1965 this was already down to 29 percent and by 1985 farmers made up only 13 percent of the LDP's support. Support from small business people fell over the same time period from 27 percent of the LDP's total to 19 percent (Ishikawa and Hirose 1989: 73–85). Even though both groups remained disproportionately strong electoral supporters of conservative candidates (Kobayashi 1991: 130) the two constituencies had shrunk in number, in economic significance, and in the electoral support they could provide for conservative politicians. Yet their powerful backers within the LDP continued to

hold strategic positions that enabled them to veto many policies challenging these interests.

During the same period voters had also become far less predictable. In the 1960s, fewer than 10 percent of Japan's voters identified themselves as "independents." By the 1993 election that figure was up to 38 percent; and in January 1995, it was 50 percent. Voters could be mobilized by different parties, depending on if and when a particular political party or candidate provided them with sufficient motivation.

Such shifts made it clear that conservative electoral hegemony could continue only by changing or expanding its traditional support base. The party sought to do this through various devices. Nevertheless, as a whole the party and many specific LDP parliamentarians continued to draw essential electoral support from traditional groups, and to pursue policies designed to ensure their ongoing support. Not surprisingly, considerable resistance arose among potential losers within the LDP to any inherent mathematical rationality that might have pushed the LDP as a party to "drop" one or another long-term support group in favor of another more numerous group, such as urban salaried workers.

Well after it was economically rational to do so, the LDP provided extensive protection to farmers and small shopkeepers through such measures as farm subsidies, import quotas on key agricultural goods (including a ban on rice imports), low or no interest loans to small shopkeepers, and an "anti-supermarket law" that effectively gave local chambers of commerce veto power over proposed new large stores. Even though the LDP made some electoral inroads into the country's largest metropolitan areas, it resisted making too many policy changes aimed at attracting urban support for fear that doing would cost it at least as much support within the more traditional and rural sectors. Moreover, the incentives for the party as a whole to broaden its support frequently conflicted directly with the interests of powerful parliamentarians heavily dependent for their own continuous re-election on well-established, if shrinking constituencies. Clearly, few of them were anxious to embrace the opportunity to learn new lessons if it meant losing their offices.

Whereas the LDP had been capable of continually expanding its base without losing important support groups throughout the 1980s, by the 1990s, this became less easy. Economic policies that could keep all new add-ons happy without upsetting long-term supporters became ever less possible as economic growth stalled; trade-offs among potential constituencies became essential. The tensions between continued protection for agriculture and small business while seeking to ensure global competitiveness and simultaneously attracting urban voters created sharp internal tensions over economic policy by the mid-to-late-1980s. Tensions grew too with the US over Japan's exports, in turn fueling rethinking of economic policy. The result was a slow but unmistakable *shift in Japan's macro-economic policies*, the second of the major changes that have contributed to ongoing tensions within the LDP and the regime as a whole.

Throughout much of the 1980s and into the early 1990s, bilateral trade tensions with the United States, Japan's largest export market, were acute. US pressures rose for Japan to open up its domestic market to foreign goods and foreign direct

investment, as manifested in the so-called MOSS talks (market-oriented, sector-specific) in January 1985, the Structural Impediments Initiative (SII) of 1989, the 1994 Framework Talks, and the Semiconductor Trade Agreement from 1986 to 1991. In almost all cases the negotiations challenged the protected interests of valuable LDP constituencies or supporting industries.

The US also applied pressure on Japan to revalue its national currency, most conspicuously with the 1985 Plaza Accord. The yen quickly doubled in value, spurring many of Japan's larger firms to boost overseas investments. Many of Japan's largest corporations became truly global producers setting up production and distribution networks across the globe. In 1989, only 5.7 percent of the manufacturing capacity of Japanese-owned companies took place outside of Japan; by 2000 that number had jumped to 14.5 percent. The figures were vastly higher in key sectors such as electronics (33 percent) and autos (25 percent) (Pacific Council 2002: 27). Yet, as some sectors and companies readily embraced global production models, others remained locked in their dependence on domestic markets, government protection, and public subsidization. Quickly, the number of quality manufacturing jobs within Japan dropped and supply contracts for many of the country's smaller parts manufacturers disappeared.

Throughout the 1990s, the underlying duality of Japan's economy became increasingly problematic. When many of Japan's most successful companies moved abroad taking some of Japan's best jobs with them, the second tier of the economy left behind became increasingly dependent on the domestic economy and domestic sales for their overall success. For these companies to stay in business, protection from any form of price competition—foreign or domestic—became increasingly critical. In addition, treasury support in the form of pork-barrel legislation became essential. But with the national economy growing so much more slowly, and with so many of Japan's most productive companies increasingly operating overseas, the economic resources once easily available to the ruling LDP were stagnant.

These tensions came to the fore in policy decisions designed to liberalize agriculture and to end the protection for small and medium sized businesses by ending the restrictions against large stores. In response to the liberalization of agricultural imports, farmers swung strongly against the LDP in the 1989 Upper House election with farm support for the party falling from 56 percent in the 1986 election to 41 percent in 1989. This represented the LDP's biggest loss from any socio-economic group, laying the groundwork for what was to be the party's 1993 split.

The third major set of changes facing the LDP involved an overhaul of *the electoral system*, and the consequent reorganization of the party system. Demands for altering the electoral system arose principally from the LDP's involvement in a series of corruption scandals. But electoral reform grew as well out of efforts to deal with the long-term mix of demographic changes and economic policy shifts as well. Unable to reach an intra-party consensus on these issues, the LDP split over various electoral reform proposals (Ōtake 1995: 17). The seven-party coalition of Hosokawa Morihiro that took power in 1993 achieved one major policy target:

it passed an extensive series of changes in the nation's electoral laws. Four new bills established new campaign regulations along with a complete overhaul in the electoral system for the House of Representatives. The latter was again modified before the 2000 election. Japan replaced its longstanding multi-member, single, non-transferable vote with one based on 300 single-member seats plus 180 chosen by proportional representation. The electoral system for the Upper House was further revised in 2000.

Massive changes in the party system followed in the wake of these electoral changes. New parties formed and party reorganizations cascaded with perplexing frequency. Over time, there was a consolidation in the number of what Reed (2002) has called "viable parties." At least two of these—the New Frontier Party and the Democratic Party of Japan—presented highly credible challenges to the LDP in the mid to late 1990s. Rather suddenly, Japanese politics saw the presence of a credible, if untested, electoral alternative to LDP rule. The electoral challenge to the LDP was most quickly felt in the PR seats where voters cast ballots for a party list rather than for a specific individual. Thus, in the 1996 Lower House election, the two opposition parties combined to win over 44 percent of the proportional representation (PR) vote compared with 32.8 percent for the LDP. The 1998 Upper House election saw the LDP drop from 61 to 44 seats while the Democratic Party and the Japan Communist Party both doubled their seats, giving the combined opposition an absolute majority. In the 2003 Lower House election, the DPJ defeated the LDP in PR balloting and became the most successful opposition party in postwar history with 177 seats (37 percent) and the party system appeared to consolidate around two large parties, LDP and DPJ.

Still none of these changes, powerful as they were, actually toppled the LDP. Structural legacies from the past continued to impede rapid change. Thus, despite the opposition's gaining larger proportions of the total vote in 1996, the LDP still outpolled them, gaining nearly 48 percent of the seats while the opposition won only 42 percent. The apparent opposition victory in the 1998 Upper House was short-lived, generating at best limited lasting electoral momentum, while in the 2000 House of Representatives election, the LDP managed to win 48.5 percent of the seats while the DPJ gained only 26.5 percent. As Scheiner (2002: 18) put it at the time: "Since the late 1980s, the Japanese public appeared to grow eager to latch on to new party alternatives, but while new party threats were quick to rise up, they did not find a way to maintain voter allegiance, and the LDP is yet to face a serious sustained challenger." Indeed, in the 2001 Upper House election, the LDP, led by its new leader Koizumi Junichirō, scored a substantial victory, one Koizumi repeated in the 2003 Lower House election.

Robert Weiner (2002) points out that such weakness of the opposition party in Japan is not particularly unusual. Elections in most democracies favor incumbents, creating formidable hurdles for any opposition. And the longer a single party is in power, the more logically it becomes the career vehicle of choice for aspiring young politicians and the more difficult it becomes for opposition parties to develop the needed reservoir of talented potential national candidates. The tremendous advantages enjoyed by incumbents remained particularly valuable for

longstanding LDP parliamentarians (and often their offspring) in the rural areas, and the rural grip of the LDP remained exceptionally tough to break.

The newly reorganized parties that came into being during the 1990s struggled mightily to overcome the legacy of such formidable barriers. Only in the 2004 House of Councilors election did it begin to appear that perhaps a major opposition party, with an electoral constituency not wedded to the old regime, had developed the momentum that might propel it into governmental power. That trend continued with the massive Upper House victory by the DPJ in 2007, finally creating a situation in which the LDP might finally be forced to "learn to lose."

A key element in the conservatives' continued hold on power had been the fact that once back in office after their nine months in opposition (1993–4) the LDP turned to Keynesian fiscal stimulation to lard out publicly-funded pork to valued constituents in a clear case of electoral self-interest. *The Economist* (April 25, 1998: 107) showed that between 1994 and 1998 public spending as a percentage of GDP shrunk in almost all rich democracies. The biggest drop came in Sweden where it fell from 68 percent to 59 percent of GDP, an 11.9 percent drop. Britain saw a large 6.1 percent drop. In contrast, the only country where public spending increased during this period was Japan.

For most of the 1990s, doling out heavy government expenditures to large-scale construction projects in rural areas and other pork projects allowed the LDP to retain power. Clearly a few months in the oppositional wilderness during 1993–94 had been sufficient to convince most party members that they had little to learn from losing, particularly losing control over the national budget and the pork it provided. Until at least 1998, Japan's ruling conservatives continued to pursue classical pork over productivity, with the result that the latter did indeed plummet. Little public money went into projects likely to generate enhanced labor or capital productivity such as public investments in potentially high payoff technologies, new firms or innovative manufacturing procedures. Government debt levels soared to approximately 170 percent of GDP, by far the highest levels in the industrial world. Public debt service in Japan chewed up nearly one-quarter of the annual national budget in 2004. Japan became the only major country running a bigger budget deficit than it had four years earlier.

Such boondoggles exacerbated Japan's economic difficulties even as they provided unmistakable political life-support to the party in power. Constituent loyalty was bought at the expense of future generations of taxpayers. Moreover, conservative control of the budget also meant that the opposition, lacking the ability to tap into the national treasury, entered all electoral battles armed with a metaphoric slingshot against incumbents wielding howitzers.

It was in the midst of this tumultuous and politically precarious situation that Koizumi Junichirō became Prime Minister. The LDP's popularity was weak, and the opposition parties were gaining strength. But Koizumi took the prime ministership, promising "reforms with no sanctuaries." He laid down an explicit challenge to many structures and power holders whom he identified publicly as blocking political and economic change. With Koizumi in the prime ministership, rather than a bipolar policy confrontation between a unified LDP and a unified

(and opposing) DPJ, the main line of debate over economic and political reform shifted squarely to within the LDP.

The intra-LDP struggle over reform

Koizumi's critics would argue that he was quicker to generate slogans and promises than to deliver comprehensive reforms. Many suggest that Japan's underlying structures remain largely unchallenged by his actions (Mulgan 2002). Yet he presided over numerous changes in structures and policies, most put in place by his administration, with some started before he took office (Vogel 2006). These provided Koizumi with a reconfigured policymaking process that enabled him and his supporters to push through changes in policy that weighed heavily against many traditional components of the party. Koizumi also forced substantial changes in the internal structures of the LDP, reducing seriously the previous powers of many politicians whose careers had rested more heavily on pork than on productivity.

Under Koizumi, bureaucratic and LDP party powers shrank while both the Cabinet and the Prime Minister's Office gained enhanced powers to initiate policy measures. Many of these involved trampling on hitherto sacrosanct bureaucratic or LDP turf. In January 2001, Japan's twenty-odd ministries were recombined into fourteen, with an important redistribution of functions and powers in many of the most important. Many of the previously tight links between agency and constituent interest group were broken and the longstanding system of vertical administration came under explicit challenge. Numerous powers of bureaucratic officials were checked and the number of political appointees in each ministry, which had previously been limited to only the top two posts, was more than tripled for most agencies, providing additional layers of political control over previous agency autonomy.

Perhaps most importantly, a new and well-staffed Cabinet Office, plus a bolstered Cabinet Secretariat, gained substantial strength to initiate and coordinate policies. At the end of 1999 the Prime Minister's Office had a staff of only 582 and the Cabinet Secretariat had 184. By the end of 2001, the new Cabinet Office had nearly 2,200 staff and the Secretariat had more than tripled to 487 (www.kantei.go.jp/jp/tokino-ugoki/9909/pdf9_18.pdf). Under 1999 legislation, the prime minister was also given explicit authority to engage in policy planning and to initiate legislation. A new Council on Economic and Fiscal Policy (CEFP) was given considerable leeway to generate a mixture of policies aimed at addressing the country's extensive economic and financial problems.

Collectively, these changes altered prior balances of power. Agency autonomy declined and the power of elected politicians, particularly politicians in the executive branch, rose (Muramatsu 2006: 12). The power of individual LDP leaders, including the once formidable faction leaders, was strikingly reduced. Part of this power loss came from the reduction in the relevance of factions and their leaders under the new electoral system. But in addition the prime minister and the cabinet took advantage of their new powers to carve out a sphere of

enhanced autonomy in policymaking and to marginalize the policymaking power of party institutions, especially the PARC. Koizumi was particularly flagrant in his refusal to follow longstanding customs of consulting with LDP faction leaders over cabinet appointments; instead he appointed many non-parliamentarians and back-benchers, further undercutting one of the previously vital powers of faction leaders.

Koizumi made it clear from the start of his administration that he was less concerned with ensuring the viability of the LDP as a party, at least in its traditional form, than in concentrating on economic and political reforms that, at least in the short run, could have had a seriously negative effect on the LDP. He was willing to threaten party members with the destruction of the party if they were too overt in their challenges to his direction. And because of his intense public popularity, party elders were reluctant to challenge him too overtly lest the party suffer in any electoral contest that did not have Koizumi at the head of the LDP.

Most notably on the economic front, Koizumi utilized the Council on Economic and Fiscal Policy to press various economic reforms. The Council carried out sweeping changes concerning the serious problem of non-performing loans, road construction, the privatization of various public sector corporations, and caps on the issuance of new bonds for public works (Amyx 2004). Koizumi and the CEFP also cut back significantly on the budgetary outflow for public works projects while enhancing Japanese spending for IT and broadband access.

His most striking success however came over the radical alterations to the postal savings system. Japan's extensive network of nearly 25,000 post offices and their well-organized postmasters have been important as vote-mobilizing machines for LDP candidates, particularly in the rural areas (MacLachlan 2004). Moreover, the postal savings system has been Japan's, indeed the world's, largest single savings bank, as well as functioning as a huge insurance company. Premiums collected from thousands of Japanese customers flowed into Japan's Fiscal Investment and Loan Program, providing essentially a "second budget" that was used, among other things, to support politically favored public works and construction projects. Koizumi's proposed postal reform thus struck, even in its modified form, at the heart of both a vital LDP vote-getting organization and one of the party's major slush funds. The impact of his proposed change would be felt most seriously by LDP members in the rural areas.

Koizumi's postal reform proposals crystallized the intra-party opposition that had already been manifest in other areas. Koizumi had been opposed on many of his specific policy proposals—and often on his entire agenda—by well-entrenched party leaders most heavily though not exclusively tied to rural, construction and small business interests. Still, he remained in office much longer than his ten immediate predecessors, all the while bypassing faction leaders in his cabinet choices and in many of his policy proposals. Little-by-little Koizumi weakened their long-term power and strengthened his own.

Koizumi's main sources of strength lay outside the party, largely with a public frustrated by the slow pace of political and economic reform. Koizumi's media savvy allowed him to bypass traditional internal party channels and intra-party

consensus building in favor of direct populist appeals. Consequently while the party's old guard was often unhappy with his policy agenda, it resisted replacing him because to do so would almost certainly have risked electoral retribution entailing their own loss of power. Again, "not losing" became the driving logic that kept Koizumi in office despite his challenges to the party's sacred cows. At the same time, it was long apparent to many in the party that allowing Koizumi's reforms to go forward was eroding much of the party's (and their own) traditional electoral base. How these forces would play out was unclear for the first four years (2001–5) that Koizumi and his allies jostled on a tightrope with anti-reformist party elders. The battle between reform and resistance (and pork versus productivity) was joined under Koizumi as it had not been in the previous decade or more of LDP uncertainty.

In one brilliant stroke, Koizumi's victory in the September 2005 election resolved the intra-party debate—at least temporarily—in favor of "reform." The electoral victory for Koizumi created an expanded and somewhat new constituency for the LDP plus economic policies designed to reinvigorate productivity and downplay pork. Until the remainder of his term in September 2006 few LDP parliamentarians were in a mood to challenge Koizumi and his reform agenda. Ironically, the intra-party reforms carried out by Koizumi were quickly reversed by his successor, Abe Shinzo. Abe welcomed the "postal rebels" back from expulsion. He also returned to the practices of close consultation with faction leaders and cronyism. The results were disastrous for the party and its popularity; it suffered massive electoral defeat in the Upper House election of 2007.

Over time, the LDP has shown itself a party reluctant to surrender office. In this regard, perhaps it is not very different from most parties in government. But its ability to reward its diverse constituencies of pork and productivity combined with its skills in marginalizing its opponents and co-opting the opposition's best issues allowed it to continue reinventing itself for decades. In the most recent decade, however, previously successful tactics proved less effective, largely because the party's control of economic resources had shrunk, thereby removing the oil that had heretofore smoothed its own internal disputes. The election of September 11, 2005 appeared to have resolved those issues in favor of productivity and against pork. But anti-reformists, though hobbled, were hardly eliminated from the party's ranks. They showed their resilience during the short-term prime ministership of Abe, but with crushing electoral consequences.

As this chapter is being written, a newly-seated Prime Minister Fukuda is beset by a powerful opposition from the DPJ in the Upper House creating policymaking paralysis. Whether the current logjam will be broken by a compromise between government and opposition or by new Lower House elections is uncertain. But, in all likelihood, the next Lower House election will not see a repeat of the one-sided LDP romp of 2005. Koizumi carried out a series of moves that, if built upon, could have transformed the LDP into a party once again able to stimulate at least modest levels of productivity. Yet, his successor squandered that opportunity with disastrous electoral results. Throughout the period from 1993–2008, the LDP's experience reinforced the sense that for most party members, the idea of learning

to lose was the provenance of losers. Given the party's failure to capitalize on the opportunities presented by the Koizumi reforms, the party may well have no choice but to learn their lessons from outside the halls of power.

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8 Embracing defeat

The KMT and the PRI after 2000

Tun-jen Cheng

In the year 2000, Taiwan's Nationalist Party or Kuomintang (KMT) and Mexico's Institutional Revolutionary Party (*Partido Revolucionario Institucional* or PRI; <http://www.pri.org.mx>) were defeated in their respective presidential elections for the first time in their 70-year party histories. Not only did these two age-old hegemonic parties lose executive power and the clout, protection, resources, and perks that came with it, but also their mere survival was called into question. The KMT presidential candidate ran a distant third place in the race and the party was dealt another blow in the December 2001 legislative election when it lost majority control in the Legislative Yuan. The PRI was also deprived of its majority in Congress, and headed for a string of defeats in subsequent gubernatorial races.¹ Hegemonic parties can disintegrate, a political fate that beset most former communist parties in Eastern Europe at the turn of the 1990s. They can hang around for a while, but eventually vanish, as was the case of Turkey's Republican People's Party (RPP) (Cheng 2002).² Or they can reinvent themselves and rebound to power as did a few social democratic (ex-communist) parties in Eastern Europe during the second half of the 1990s (Higley *et al.* 1996: 137). This chapter examines how the KMT and the PRI have managed their historic electoral defeats. Will they "bleed out" or become revitalized as competitive ordinary parties that may even regain power? A comparative study of the two parties' organizational responses to their loss of political power helps shed light on the more general question of how former dominant parties cope with their first electoral defeat. The KMT relied on an adaptive strategy of organizational reform from the leadership on down to the rank-and-file, while the PRI leadership chose to craft several elite pacts, which in the end focused leadership energies on battling internal fights rather than reforming the former dominant party.

Examining the development of two defeated hegemonic parties also can help us to assess democratic consolidation in Taiwan and Mexico. First, with the first transfer of power, the KMT and the PRI were expected to assume the role of loyal opposition to the governing Democratic Progressive Party (DPP) and the National Action Party (*Partido de Accion Nacional* or PAN). The law of inertia seemed to reign, however. Instead of adapting to the new role, the two defeated parties initially denounced the new governing parties as inexperienced, vengeful and undeserved winners. The two new governing parties initially tended to overcorrect