Will Japan Rise Again?

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Faced with external and internal troubles, Japan is now at crossroads of its resurgence or free fall in world affairs. It is the world’s oldest monarchy—a constitutional monarchy since 1889—with an exemplar democratic government institution, has strong industrial and technological power, and ranks as the third biggest economy. Looking closely, however, Japan has accumulated public debts that amount to more than 200% of its GDP,

The 1947 Constitution of Japan is in fact a part of the Pax Americana appears waning while a Pax Sinica looms. The Japanese are debating more actively than ever if they have to amend the U.S.-made pacifist Constitution of Japan, a legacy of its defeat in World War II and the subsequent U.S.-led occupation, that assumes the bilateral alliance with the U.S. security guarantor. More specifically, the debate centres on if the Article 9 be amended to authorize the Japanese state to possess legally full-fledged military forces, not the existing Self-Defence Forces, and to exercise the right of collective self-defence, both of which are essential for combined combat operation with U.S. forces.

To meet these multiple challenges, Japan must achieve a comprehensive reform, involving a paradigmatic shift of the post-war political economics that have made it possible to achieve the current affluence and prosperity. Yet, the reform is some 20 years overdue because, since the end of the Cold War followed by the burst of the Japanese asset bubble economy, the country’s political regime has been adrift without being able to tackle the reform squarely. Evidently, the regime has postponed it by financing the perennially deficit-ridden Japanese state with huge wealth accrued during the heydays in the 1970s and 1980s. Now that the net wealth has dwindled significantly, compounded by rapid greying and the great earthquake and tsunami of 2011, the new Abe administration is now cornered to carry out a comprehensive reform.

Security Environment and Constitutional Reform

Revealingly, Japan’s two modern written constitutions of 1889 and 1947 are not a product of popular constitution-making power, but rather an instrument of coping with the hostile security environment of each period.

The 1889 Constitution of the Great Japanese Empire was grounded on the Japanese version of the theory of the divine right of kings. Once the country entered modernity with the Meiji Restoration in 1868, the revolutionary government had to institutionalize a western-style constitutional monarchy, a requirement to be a “civilized” nation, so as to survive predatory Western imperialism and colonialism. Yet, the Japanese people at that time believed in traditionalism without any idea about a written constitution, so that the government legitimated the establishment of the first constitution by the Meiji emperor’s oath to his ancestors and ancestral deities, invoking the imperial authority embedded in unwritten customary constitutional law.

The 1947 Constitution of Japan is in fact a part of the San Francisco Peace Treaty system established in 1952. After two atomic bombs were dropped, Japan finally accepted a conditional surrender with stringent conditions that required U.S.-led nationwide military occupation of the country, followed by its sweeping demilitarization and democratization. Evidently, the conditions aimed to prevent Japan from challenging the post-war international order under the victorious U.S. and other major allies. Then the U.S.-led occupation authority drafted the Constitution, and imposed it upon the occupied Japan. Certainly, the Constitution was established in accordance with the amendment procedures of the first constitution, but there exists no overlap in text between the two. The first constitution was simply replaced by the second. To regain sovereignty and independence, Japan then was forced to accept the 1947 Constitution, the 1952 San Francisco Peace Treaty and U.S.-Japan Security Treaty that have made the country a de facto U.S. protectorate. The bilateral relationship remains essentially unchanged since, although it was somewhat equalized when the treaty was revised in 1960.

It begs the question why Japan has retained the U.S.-made constitution for more than 60 years even after re-independence. Certainly, the constitution remains unamended due in part to very rigid built-in procedural requirements. Yet, the country has taken advantage of its security depend-
ency on the U.S and, as a result, very low defence spending, which served very well for Japan’s reconstruction and development and, later, for its unparalleled affluence and prosperity. Even with the Cold War over, this structure has not changed significantly. Now that the Japanese witness China’s rise and U.S. hegemon’s relative decline, they increasingly perceive the U.S. security guarantor less reliable and thus the need to do more for its own defence.

The ongoing shift in public opinion for constitutional reform is well anticipated given the historical pattern of Japan’s strategic behaviour vis-à-vis the Chinese world. That is, the domestic political structure and security strategy of historic Japan was positively associated with those of China. When the Chinese world was unified by an empire with strong military power, Japan’s polity also became centralized to deter and, if necessary, repel possible Chinese aggression. Alternatively, when the world was fragmented or when an empire there was weak, the polity was decentralized as numerous semi-autonomous political communities were physically separated by mountains and rivers across the Japanese archipelago, far away from the continent (Matsumura, 2008a). Seen from the historical perspective, U.S. military presence in the East Asia works as an intervening variable in historic Sino-Japanese strategic interaction.

In this context, the first Democratic Party of Japan (DPJ) government under Yukio Hatoyama (September 2009 - June 2010) ignored the country’s need of fine-tuning its security policy in accordance with strategic calculation that encompasses both U.S. and China factors. In an attempt to modify the long-held post-war policy line, the Prime Minister hastily declared himself for the creation of a notional East Asian Community that would possibly exclude the U.S., emulating after European experience in regional integration. He also pledged to cancel the already settled plan of relocating the U.S. Marine base in Futenma to Henoko within the island of Okinawa and instead to move it out of the Okinawa prefecture. This has unnecessarily inflated the local Okinawans’ expectation toward the island without U.S. bases, reigniting anti-base movements. But he soon recanted the pledge after having realized the critical importance of Okinawa as a major hub of the U.S. global network of bases and facilities for forward deployment, particularly against growing Chinese expansionism that requires robust U.S. military presence for deterrence. After all, he was compelled to resign under the heavy pressure of domestic politics interplaying with regional strategic dynamics.

While the current ruling Liberal Democratic Party (LDP) under Abe plans to take up constitutional reform as a major issue in the upper house election scheduled in this July, however, the Japanese are now moving to it cautiously because the status quo appears sufficiently stable, at least for a foreseeable future, under the weakened U.S. hegemony. The post-war political economics of Japan has strong inertia due to its successful experience, unless U.S. decline or China’s rise aggravates its security environment more acutely than expected. The inertia is also reinforced by the nation’s rapid greying that brings a paralleling growth of entitlement and other welfare spending, which, owing to budgeting trade-offs, renders it more and more difficult to increase defence spending. Obviously, the one-dimensional analysis on security and constitutional reform alone cannot capture the systemic nature of the post-war political economics. It is necessary to analyze the dynamics of the domestic regime that dies hard.

The Tyranny of the Domestic Status Quo

To carry out a comprehensive reform, Japan has to undergo a political shake-up through which to produce a new firmly committed political leadership. For the last two decades, the country has vainly sought a functioning two party system that is free from the ideological confrontation of the Cold War period.

Despite regular free elections, Japan was in thrall to a one-party dominant regime under the LDP almost continuously from 1955 to 2009, increasingly, with coalition partners for the last decade. True, for nine months between 1993 and 1994, a non-LDP government was formed through an alignment of opposition parties and four dozens of lawmakers who spun out from the reform-averse LDP. But, the LDP made a quick comeback by breaking the alignment through its favor-based partisan manoeuvring aimed at the then-second largest opposition Socialist Party of Japan.

At length, the Democratic Party of Japan (DPJ) came into power in 2008, which was the first bottom-up democratic change of government since 1955. The change occurred due to the electorate’s discontent with the LDP, combined with the ungrounded hope toward the DPJ that had no practical experience and accomplishment. The public were displeased with the protracted recession of the Japanese economy, the deepening malfunction of bureaucracies, and, above all, LDP’s inability to improve the state of affairs.

In December 2012, the LDP once again came back to power, primarily because the DPJ bungled. Over the three years, the DPJ futilely tried to carry out an overly ambitious administrative reform. It also failed to achieve sustainable growth because its economic policy focused almost exclusively on welfare redistribution. DPJ’s utter incompetence was revealed by its poor crisis management in the great earthquake of 2011 and the subsequent Fukushima nuclear accident, followed by its failure in post-disaster rehabilitation and reconstruction.

After the lost two decades, the LDP government under Abe now stands at bay. It has to reform the extant post-war regime which includes the party as integral part. Certain-
ly, he has inherited a more reform-minded LDP from the preceding Prime Minister Junichiro Koizumi (April 2001 – September 2006) who successfully ousted reform-averse old guards from the party through the general election of 2005. But Koizumi also got to work with the bureaucracy, particularly those mandarins who played central roles in economic and security policy making.

In fact, the centrality is attributable to the historical evolution of the Japanese state. Feudal Japan underwent durable decentralized political orders for several hundred years, characterized by dictatorship of the samurai warrior class. In stark contrast to Western Europe, Japan’s early modern period was exceptionally stable, and, as a result, the country developed its state before building a strong civil society. Full-fledged society-building started only after the Meiji Restoration of 1868.

The Meiji Restoration was in fact a revolution from above that involved a power transfer between the samurai clans. The Tokugawa shogunate was overthrown by large clans from the country’s western peripheral regions, marking Japan’s entry into modernity. Consequently, the Meiji government inherited the essential feature of the preceding dictatorship. Thus, even after the 1889 constitution established a bicameral system, samurai revolutionaries continued to form successive supra-party cabinets and to grip the reins of central government bureaucracies. Their dictatorship appeared to come to an end through an evolutionary process in which the party with the largest number of seats in the lower house formed a cabinet. However, this practice was short-lived due to the Great Depression which caused the rise of military dictatorship in the 1930s.

Even after World War II, the Japanese bureaucracy continued basically intact because the country surrendered before the U.S. was fully prepared for direct military occupation. Certainly, the U.S.-led occupation authority carried out total demilitarization. But the authority did not dismantle the bureaucracy that was integral part of general mobilization, instead having used it as a primary means of indirect rule. Consequently, even after the country’s re-independence in 1952, the bureaucracy preserved its dominance in policy making and retained its supra-party nature, although no longer allegiance to the emperor.

In 1955, the LDP was formed as a stable parliamentary majority through a grand merger of different conservative political forces after they underwent decade-long ideological battles against communists and socialists. The LDP strove to legitimize its rule through growth and development. More specifically, the party, together with the bureaucracy and the business circles, formed an iron triangle; the LDP controlled the bureaucracy that regulated the business circles, while the business circles greatly influenced the LDP through donation of political funds. The triangle enabled the sustained synergy of export-led development, accumulation of capital and technology, and redistribution of wealth. The LDP supported the bureaucracy to carry out an industrial policy aimed to finance capital investment, reorganize industrial structure, and develop basic critical technologies. Then the big businesses competed for rapid growth through aggressive export, particularly in heavy, machinery, car, and later consumer electronics industries, which generated massive trickle-down effects across the national economy. By using a part of the accumulated wealth, the LDP also implemented substantial income transfer from the internationally hyper-competitive manufacturing sectors to the uncompetitive service and agricultural ones and from the urban to the rural sectors. By the middle of 1980s, Japan reached the zenith of its economic power. On the other hand, the U.S. suffered from its serious decline of competitiveness and overall national economic power, because it had to divert a significant portion of resources to the military sector in order to sustain its military confrontation with the Soviet Union.

The end of the Cold War, however, increasingly deprived the Japanese political economics of those preconditions that made it successful. During the era, the former Soviet bloc countries, China, India and others were excluded in large part from international markets in which the United States, Western Europe, and Japan competed for limited demand. To counter overproduction and rectify trade imbalances, these three powers frequently resorted to managed trade regimes and imperfect international financial policy coordination. Due to its strong competitiveness, Japan often prevailed in trilateral competition while enjoying near full employment.

After the Cold War, those once-excluded economies are now integrated into international markets and supply chains. This transformation has resulted in the sustained expansion of global demand, inspired by a marriage of management skills and technologies from the advanced economies with abundant cheap labour in the emerging economies. China in particular has enjoyed a successful economic take-off in this era without the need for domestic accumulation of capital and indigenous manufacturing technologies. Under the sea change, the Japanese approach no longer works well for transnational competition that involves global sourcing and outsourcing, although it once fit best for competition among national economies.

In fact, the Japanese economy underwent a significant hollow-out of the labour-intensive, low-/medium-tech manufacturing sectors, relocating production facilities and subsidiaries to the Southeast Asia and then the wider Asia-Pacific region and, as a result, forming transnational supply chains of their intra-firm trade. This process accelerated as the Japanese yen got appreciated through G-7 international macro-economic coordination, especially after the Plaza Accord of 1985. The expansion of Japanese economic activities was indeed an externalization of industrial policy that the state and the business collaborated overseas to jointly employ economic aid, direct investment and trade for growth and development.

Furthermore, the success of the political economics made it hard to identify promising industries and technologies as the target for industrial policy, because the Japanese ceased to be a catch-upper and became a fore-
runner who, by definition, could not emulate another. With the huge wealth accrued, the Japanese practice of industrial policy as well as other complementary social policy and welfare programs has outlived the era of its effective application. This has resulted in snowballing fiscal deficits and huge accumulated national debts, owing to the interplay of low growth, staggering tax revenue, and the exhaustion of demographic bonus that have entrapped the country into a deflation spiral.

To reverse such a dynamics, Japan had to dismantle the iron triangle, involving a shift from the materialist politics of growth and redistribution to the symbolic politics of cost reallocation and burden-shifting. With his populist rhetoric, former Prime Minister Junichiro Koizumi followed a neo-liberal market-oriented reform approach that virtually brought about some major changes, particularly in redistribution aspects, which virtually weakened LDP’s bastions in the rural, agricultural, service, and other uncompetitive sectors and, as a consequence, its organizational foundation. In other words, he abandoned the bastions and chose to rely on swing voters who live in the urban areas and work for the competitive sectors. No wonder, the LDP went out of power after Koizumi was replaced by his successors, including Abe, who neither had any comparable populist appeal nor policy competency necessary to get the country out of the deepening economic and social stagnancy.

When another change of government occurred last December, the Japanese electorate was smothered in a sense of helplessness because it could not find any alternative political party that deserved its solid confidence. Certainly, the LDP under Abe came back again to power, but this was simply because the DPJ governments seriously bungled. For the weary electorate, the LDP did not seem a viable alternative, given its poor record for the two decades, particularly by three successive prime ministers, including Abe himself, prior to the birth of the DPJ government. Although the ruling coalition of the LDP and its partner, the Komei Party, won a two-third majority in the lower house, the result of the general election showed that public was in search of a viable alternative party. The newly formed Japan Restoration Party (JRP) got the second largest number of votes, not the ousted DPJ which, along with the LDP, was considered to have formed an embryonic two party system.

The JRP’s rise demonstrated growing populism against the Tokyo-based establishment, more specifically, against the risk-averse iron triangle. The JRP has started as a local party based in Osaka, Japan’s second largest metropolis, that challenges the strong centralized state under the iron triangle and demands enhanced local government autonomy as the focal point of its reform agenda. The party has sprung up under the personal leadership of Toru Hashimoto, who was a lawyer-turned-celebrity without any prior political career and later served as governor of the Osaka prefecture. He later resigned the post and has been elected as mayor of the Osaka city, while the party’s general secretary has been elected as the succeeding governor. The party has grown nationwide by absorbing former Tokyo governor Shintaro Ishihara and elderly conservative lawmakers who seek to rectify Japan’s de facto U.S. protectorate status through constitutional reform. Hashimoto and Ishihara appear to share a similar historical outlook and an ideology even with different political agenda and policy priorities. Both represent a significant portion of the general public, not only on the far right but also on the mainstream centre-of-right. It has growing displeasure with the country’s status and the victor-set discourse on war and justice that have unduly kept defeated Japan as “bad guy”, as exemplified by the issues of the fabricated “Rape of Nanking” and the distorted “comfort women” (Masaaki, 2000; Matsumura 2007b). Yet, Hashimoto’s inadvertent statement on “comfort women” this June costs his approval rating due to adverse diplomatic impact.

Japanese politics is still in transition, given the DPJ’s crushing defeat that has led to the miscarriage of a two party system. Yet, the viability of the current ruling coalition of the LDP and the Komei will be ensured only if, in addition to their two-third majority in the lower house, they win a majority in the coming election of the powerful upper house this July. Apparently, the performance of the Abe administration, particularly in economic vitalization, comprehensive reform, and national security, is inversely associated with the dynamics of populism and, therefore, with JRP’s viability.

As the country has stood idly for the two decades, Japan’s ever-present structural crisis has become so aggravated that it can no longer be ignored without taking any drastic measures. More concretely, the Abe administration is now compelled to place top priority on getting the country out of a deflation spiral. This is because it has gradually but steadily deprived the country of economic vitality and fiscal resources to cope with rapid greying and security challenge. Abe’s need for anti-deflation policy is reinforced by that of possessing a two-third majority in each of the two chambers, which is essential for constitutional reform aimed to rectify the country’s security dependency on the U.S. Naturally, the analytical focus in the following part will be placed on the background of and prospect for Abe’s recent aggressive monetary, fiscal and growth policy, known as Abenomics.

Abenomics as a Breakthrough?

Japan’s rapid greying under prosperity and affluence has resulted in a sustained decline of effective demand, which is the root cause of Japan’s longtime deflation spiral. Given the spiral, the private sector has been reluctant to make necessary investment for growth, despite near-zero interest rates. To generate adequate demand, one government
after another vainly followed the doctrine of Keynesian effective demand policy, having employed a series of fiscal stimulus measures only to generate short-lived effective demand with very low multiplying effect. Consequently, Japan has accumulated public debts that now amount to more than 200% of its GDP. The country has been unable to control chronic budgetary deficits that make up a half of its annual state budget, so that, without taking drastic remedial measures, the Japanese state would eventually default even though it would remain the largest creditor nation.

To make an exit out of the predicament, the Abe administration has begun to take the three-pronged economic policy, now with the first phase of monetary expansion. The new Bank of Japan leadership, in concordance with the Abe administration, has taken since this spring extraordinarily aggressive quantitative and qualitative easing measures at once to trigger a bubble and to induce massive capital inflows into the Japanese financial markets. It is a good timing because Japan is now best positioned under the existing global macro-economic conditions, given that the U.S, the E.U, and the rest of the developed world suffer the severe after-effects of the Lehman Shock, an unprecedented asset bubble burst. Japan has been least affected by the Shock, and, before it, already completed cleaning up non-performing loans consequent on its own bubble burst of 1992. Thus the country has turned out to be most creditworthy, relative to the U.S. and E.U. countries. Contrarily, they employed a series of massive bailout and quantitative easing measures, which has rendered their currencies and financial markets increasingly weaker, at least structurally. No wonder, risk-averse capital across developed countries is now heading to Japanese financial markets.

Given the prevailing global macro-economic conditions, this prospect will most likely be held over a middle period. Certainly, Japan’s recent monetary expansion brought about rapid depreciation of the yen, resurgence of the export sectors, and the booming of the Japanese stock markets. But, the markets plunged late this May due to abrupt massive sales of stocks held by Japanese institutional investors, such as pension funds and life insurance companies, which tried to realize current profits. Contrarily, foreign investors have steadily bought Japanese stocks even during the plunge. The boom can’t be not only significantly long-term commitment of Japanese institutional investors but also massive inflows of similar foreign funds that regard Japanese markets as the only viable destination under the global macro-economic conditions. In this course of development, foreign funds will flow into the Japanese markets despite a significantly appreciated yen.

The prospect is more tenable because China’s double digit growth rate era is coming to the end, necessitating the country’s reliance on the emerging Japanese bubble economy. China’s labour-intensive export-led growth is no longer sustainable due to sharply rising wage, while the lowered consumption of U.S. and European markets does not sufficiently absorb its export. Also, China’s domestic consumption stagnates because of a growing wealth gap that hampers the rise of middle-class consumers. The society is undergoing unprecedented greying as a consequence of the longtime one child policy, which will take up significant saving for welfare service and dampen consumption. Yet, the communist regime cannot continue post-Lehman massive domestic public investment to sustain effective demand, which will spur inflation, widen the already intolerable wealth gap, and destabilize the social order. All these mean China has to rely on earning through financial transaction in the Japanese bubble economy.

To sum up, Abenomics aims to generate a government-initiated asset bubble, involving sharp appreciation of the state assets and holdings that are far largest across the countries. Whether Japan can jump-start its economy, therefore, rests on how long it can prolong the bubbling process by keeping the risk-averse foreign capital attracted in its markets, and how quickly it can achieve as much fiscal consolidation as possible. Behind Abenomics, there is a conviction that doing so is only possible through the bubble economy.

Concluding Remarks

Henceforth, this study has emphasized the importance of a political-economic approach to analyzing the contemporary Japan, with a focus on how its security, political and economic problems are tightly intertwined. From such a perspective, the study has explored the implications of Abenomics to constitutional and political reforms. It also constitutes a warning against a uni-dimensional analysis that often misconceives Japan as heading toward nationalism, militarism or currency competition.

In the evolving international financial dynamics, Japan is entering a critical moment to augment its economic power, or a prerequisite to be an independent geo-strategic player in the emerging multi-polarity. Abenomics is giving the country a chance to unite the knot of a comprehensive reform. There will hardly be a second chance, given the snowballing security, political, economic, and demographic pressures that the country confronts.

Now that a bubble economy will be over sooner or later, it is important to develop an exit strategy. Japan would resurge if it could make a soft-landing after perfecting fiscal consolidation and reaping other fruits of the bubble. Alternatively, it would decline definitely should it completely fail to do so. In-between, there is a scenario in which it would still have to make a hard-landing after
reaping some significant fruits. In this scenario, though the Japanese would remain the largest creditor nation, the Japanese state would have to default on accumulated public debts, so that it could protect their national wealth. The Japanese leaders will soon have to go in this uncharted course.

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**Endnotes**

1. According to an ex-Treasury senior official, who is known as most knowledgeable on the state of Japan’s public debts, points out that the Japanese state possesses the world largest government assets and holdings, four times as large as that of the United States, and, therefore, that its net debts reach to 70% of GDP. TAKAHASHI, Youichi, Zaimusho ga Kaikyō 650-cho-en no Kokumin-Shisan (650 trillion yen state assets and holding that the Ministry of Treasury has hidden), Tokyo: Koudan-sha, 2011. TAKAHASHI, Youichi, *Nihon wa Zaikasei-ki kiki dewatani* (Japan is not in a fiscal crisis), Tokyo: Koudan-sha, 2008. On the other hand, it is well-known that the total Japanese individual financial assets amount to more than 300% of the nation’s GDP, while that of the private sectors some 170% of the GDP. See, *Nikkei Shimbun*, June 20, 2013.

2. It is generally understood that Japan accepted an “unconditional” surrender. However, the Potsdam Declaration and the Instrument of Surrender delineated a series of specific conditions for the conclusion of an armistice with Japan. Clearly, the widespread misunderstanding has resulted from U.S. and other major allies’ disinformation that aimed at denying the contractual nature of the surrender and their obligations thereunder.

3. Western mass media often have described misleadingly that Japan is now reviving its prewar jingoistic nationalism and militarism. Looking closely, however, she has simply become very conservative, not nationalistic, in the sense of preserving the attained affluence and prosperity. Similarly, she has modestly remilitarized herself to cope with increasingly unfavorable regional security environment, without developing militarism.

4. The upper house has almost equal power vis-à-vis the lower house, except in election of prime minister, passage of budget bill, and ratification of international treaty. The latter’s decision is often blocked when opposition parties together have a majority to control the former, particularly, with regard to tax related bills that are essential for implementation of a passed budget bill and for confirmation of independent regulatory commission members.

5. This is consistent with the Mundell-Fleming model that, under a floating exchange rate system, fiscal policy is ineffective due to a decrease of net export that results from currency appreciation.

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