

The Roles of Nationalism in Neoliberalisation

The Case of Neoliberalisation and Nationalism
in Recent Japan

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List of Acronyms:

ABS	Asset Backed Securities
ASEAN	Association of Southeast Asian Nations
BIS	Bank for International Settlements
BoJ	Bank of Japan
CEFP	Council on Economic and Fiscal Policy
CEO	Chief Executive Officer
CEO	chief executive officer
DPRK	Democratic People's Republic of Korea
EFPC	Economic and Financial Prudential Council
ERA	Economic Recovery Act
EU	European Union
FDI	Foreign Direct Investment
FILP	Fiscal Investment and Loan Program
FRC	Financial Reconstruction Commission
FSA	Financial Supervisory Agency
FTA	Free Trade Agreement
G-8	Group of Eight
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GHQ	General Headquarters
GNP	Gross National Product
IC	Integrated Circuit
IMF	International Monetary Fund
IPE	International Political Economy
IT	Information technology
JABF	Japan Association of Bereaved Families
JCP	Japan Communist Party
JFTC	Japan Fair Trade Commission
JIC	Japan Investment Commission
JNR	Japan National Railways
JSDF	Japanese Self-Defence Force
JSP	Japan Social Party
LBOs	Leveraged Buyouts
LDP	Liberal Democratic Party (Japan)
LTCM	Long-Term Capital Management
M&As	Merger and Acquisitions
MBA	Master of Business Administration
MCA	management and Coordination Agency (Japan)
METI	Ministry of Economy, Trade and Industry (Japan)
MHLW	Ministry of Health, Labour and Welfare (Japan)
MITI	Ministry of International Trade and Industry (Japan)
MNCs	Multinational Corporations
MoF	Ministry of Finance (Japan)
MOSS	Market-Oriented Sector-Specific
NAFTA	North American Free Trade Agreement
NEET	Not in Employment Education or Training
NPL	Non-profitable Loan
NPP	New Progressing Party (Japan)

NRKN	National Association for the Rescue of Japanese Kidnapped by North Korea
NTT	Nippon Telephone and Telegraph
ODR	Official Discount Rate
OECD	Organisation for Economic Co-operation and Development
OEM	Original Equipment Manufacturers
PARC	Policy Affairs Research Council
PATCO	Port Authority Transit Corporation
QC	Quality Control
R&D	Research and Development
S&Ms	small and medium size companies
SCAP	Supreme Commander for the Allied Powers
SII	Structural Impediment Initiative
SPCs	Special Purpose Companies
TFP	Total Factor Productivity
TNSs	Transnational States
UK	United Kingdom
UN	United Nations
US	United State
USSR	Union of Soviet Socialist Republics
WTO	World Trade Organization

Chapter 1: Introduction

As Karl Polanyi explained in his famous book, *The Great Transformation*, freeing economic life from social and political controls was tried and promoted firstly in England in the mid-nineteenth century by constructing the free market that operated independently of social needs. This new type of economy allowed prices of all goods, including money, land and labour, to be changeable without regard to their effects on society. The creation of the free market was achieved by demolishing previous markets, which were embedded in society with many kinds of regulations. Today, what transnational organisations, including the World Trade Organisation, the International Monetary Fund and the Organisation for Economic Cooperation and Development, are trying to achieve seems to have many similarities with the great transformation in the mid-nineteenth century.

In the early 20th century the laissez-faire economy was challenged by a series of world incidents, including World War I, the Great Depression and World War II. In the post-war period, the Western world adopted the so-called Keynesian compromise, in which the foreign currency exchange rate was fixed to the US dollar, and the state intervened to keep a clear division of domestic and international economy and to maintain the welfare of society, while international trade, especially financial trade, was limited.¹ The situation gradually changed from the mid 1970s when the fixed currency exchange was lifted, and the velocity of change accelerated during the 1980s. Known as neoliberalisation, various markets, including the financial market, had been liberalized, and post-war Keynesian welfare states were dismantled in a number of nation-states. In the 1990s, neoliberalisation became a global phenomenon with the emergence of international and regional institutions, including the World Trade Organisation (WTO), the World Bank, the North America Free Trade Area (NAFTA) and the European Union (EU), playing an important role in neoliberal economic reforms and structural adjustments in not only developed countries, but also in undeveloped and developing countries. Almost all nation-states in the world became part of the process of neoliberalisation, and therefore neoliberalisation is often used interchangeably with globalisation.

Similar to the laissez-faire economy in the period of 19th century, current ongoing neoliberalisation transformed our society by causing a number of social issues and problems. The unprecedented volume of global financial trade created great uncertainty in a highly interdependent international economy, and made our domestic daily life more and more volatile through the connection to the international economy. Unequal development in the global north and south became increasingly

¹ Robert Gilpin, *The Political Economy of International Relations* (New Jersey, 1987), pp. 131-2.

noticeable, and inside nation-states the social gap has been increasing. Moreover, the erosion of other social spheres by expanding the sphere of economy prompts ordinary people into the world of mass consumption and induces consumerism and atomism while excluding them from the important political and economic decision-making processes. The same period saw a revival of nationalism. Nationalism can be seen as a countermovement against current ongoing globalisation, like Islamic fundamentalism, but the revitalisation of nationalism also can be seen in the developed north during the process of neoliberalisation, like cultural nationalism in the US under Reagan administration.

Encountering and seeing neoliberalisation and the revival of nationalism simultaneously, we face to a theoretical paradox that neoliberalism and nationalism appear to be in conflict with each other, in the sense that while neoliberalism's ideology is methodologically and normatively individualist, nationalism is premised on collectivist interests and sentiments. Yet politically, and particular in recent Japanese politics, they seem to be compatible and even mutually reinforcing. To explore and elucidate this apparently contradictory relationship, this thesis presents an analysis of neoliberalisation and the roles of nationalism in neoliberalisation in the developing north, using the case of Japan.

1.1. Theoretical Framework

Neoliberalisation has been discussed and studied among national and international scholars, including its ideology, origins and reforms. For instance, David Harvey examines the ideological background and historical aspects of neoliberalism reforms originating in the US.² Tickell and Peck argue for two different aspects of neoliberalisation by providing the framework of roll-back and roll-out neoliberalisation.³ Although these analyses provide useful frameworks and insights to understand neoliberalism and neoliberalisation, these analyses do not clearly focus on what the main driving force of neoliberalisation is. Therefore, first of all, this thesis explores a possible answer for driving force of neoliberalisation that will be helpful to understand a whole picture of neoliberalisation.

Scholars in the field of International Political Economy (IPE) and nationalism have provided various theories about the role of nationalism in neoliberalisation. In the arguments among the scholars of IPE, there are realist, liberal and Marxist approaches to explain the relationship between nationalism and neoliberalisation. However, their approaches tend to statist arguments, in which nationalism is always

² David Harvey, *A Brief History of Neoliberalism* (Oxford, 2005).

³ Adam Tickell and Jamie Peck, *Making global rules: globalization or neoliberalization?*, in Peck and Wai-chung Yeung ed., *Remaking the Global Economy* (London, 2003).

treated as protectionism or mercantilism. Due to this limitation, their theories cannot explain the current revival of economic liberalisation and nationalism among nation-states in the 1980s and 1990s. Alternatively, in order to explain why nation-state might use neoliberal policies as a means of seeking national interests and why neoliberalisation can be supported by the people in a nation, Crane, Shulman, Goff and Desai provide new theories. These new theories together are helpful to explain two different nationalisms that work to promote and legitimize neoliberalisation. Therefore, this thesis is grounded on literature in the area of nationalism and neoliberalisation to provide a possible answer for the roles of nationalism in neoliberalisation.

1.2. Basic arguments of the thesis

From the analysis of neoliberalism and neoliberalisation, it is argued that the emergence of the global financial market is a main driving force of neoliberalisation, and neoliberalisation is the process of financialisation. Moreover, neoliberalisation increases social insecurity as the expansion of neoliberal financial markets causes instability and volatility. Neoliberalisation also increases social inequality internationally and domestically, because neoliberalisation in various markets creates high competition. In general, transnationalized interests group achieve the financial benefit of neoliberalisation, and non-transnationalized interest groups tend to lose the positions that they occupied in the former Keynesian type of economy. Therefore, neoliberal reforms do not serve the particular interests of non-transnationalized interests groups. However, in a democratic country, there is a necessity to legitimize the implementation of neoliberal reforms as political and economic policies, if neoliberalisation is to be practiced.

Regarding the relationship of nationalism and neoliberalisation, it is argued here that in the process of neoliberalisation there are two stages of nationalism, namely economic and cultural nationalism. Economic nationalism is used to provide a legitimacy of implementation of neoliberal reforms by representing neoliberal reforms as in the nation's economic interest. Once neoliberal reforms are implemented, social insecurity and inequality tend to emerge in a nation-state, and therefore a state implements cultural nationalism to 'mask' or 'glue' the social insecurity and inequality to maintain national unity for maintenance of neoliberal space or further implementation of neoliberal policy. Nationalism can provide the legitimizing goal and "glue" that can counteract the increase in social insecurity and inequality generated by neoliberalisation, because the sentiments generated by economic and cultural nationalism are strongly connected with the will of the people.

1.3. Strengths and Weaknesses of the Approach

Strengths

Firstly, this thesis can provide a clear picture for the relationship between financialisation and neoliberalisation. Previous arguments over neoliberalism and neoliberalisation mainly focused on ideologies, historical aspects, reforms and results of neoliberalisation even though some scholars pay attention to its connection to global finance and argue that the global finance is a part of neoliberalisation. This thesis shows how the emergence of the global financial market is influential to neoliberalisation, and provides deeper insights into the neoliberal financial market by evaluating the nature and structure of the financial market and the results from its expansion.

Secondly, this thesis clearly analyses four aspects of nationalism that makes it possible to evaluate new theories of the relationship between neoliberalisation and nationalism and to understand the possibility that two different types of nationalism would occur in the process of neoliberalisation. Through the evaluation, this thesis provides an explanation for the different nationalisms in the process of neoliberalisation in a nation-state.

Thirdly and finally, this thesis provides a detailed scope of neoliberalisation and nationalism in recent Japan. Most Western literature about Japan's economy focuses on its 'non-liberal' economic system, and only a few books and articles analyse Japan's neoliberal reforms. Moreover, the recent revival of nationalism among the Japanese has not been paid great attention by Western scholars. Therefore, this thesis can contribute to knowledge on recent Japanese political economy, and brings some of the Japanese-language scholarly debates into the English-language literature on Japan.

Weaknesses

This thesis does not provide an analysis of the relationship between neoliberalisation and nationalism in developing and non-democratic countries. Moreover, this thesis explored only Japan as its case study. Therefore, it is not demonstrated here whether the argument of the thesis is applicable to other countries, including non-democratic and developing countries.

Because this thesis was written in New Zealand, I have relied on secondary sources. To analyse nationalism in the 1980s and the 1990s I rely on previously published research. To evaluate more recent nationalism under the Koizumi administration, I also rely on previous research and newspapers' opinion polls rather than, for example, conducting surveys or analysing cultural products such as television programmes and advertisements.

1.4. Method

This thesis is constructed by the combination of a review and analysis of the theoretical literature with a detailed case study to derive a potentially generalisable argument about the relationship between nationalism and neoliberalisation. In order to elucidate the relationship between neoliberalism and nationalism more generally as well as in relation to Japanese politics, the literature on neoliberalisation is reviewed, identifying key dynamics shaping its political impacts in Japan. Then, relevant segments of the large and diverse literature on nationalism are discussed in order to extract analytical elements that can be used to understand the dynamics of nationalism in Japan. The literature that attempts to account for the relationship between nationalism and neoliberalism is also reviewed and evaluated. Then, the insights derived from the literature review are applied to the case study of Japan. English-language as well as Japanese-language scholarship is drawn on to identify key features of the post-war Japanese political-economic system as well as the pattern and impacts of neoliberalisation in Japan. Literature on recent social, cultural and political developments in Japan is then used to substantiate this thesis's argument about the relationship between nationalism and neoliberalisation.

1.5. Structure

The structure of the remainder of the thesis is presented below.

Chapter Two introduces literature on neoliberalism and argues that changes to the finance sector and the process known as “financialisation” have been the driving forces behind neoliberal reforms in other sectors. In order to grasp the development of neoliberalisation (including financialisation) in detail, Tickell and Peck's framework for neoliberal reforms is applied.

Chapter Three discusses and analyses theories of nationalism with regard to how they might pertain to the role of nationalism in economic liberalisation. While all agree that nationalism seeks to unify “the people” in a nation-state, it is not clear *how* nationalism can unify the people. In order to make the effects of nationalism observable, four aspects of nationalism are discussed. A hypothesis concerning the role of nationalism in Japan's neoliberalisation is presented.

Chapter Four explores the case of Japanese neoliberalisation. Here I analyse the post-war Japanese economic system and research why neoliberal reforms became to be implemented in Japan, what roll-back and roll-out neoliberalisation in Japan look

like, how the post-war Japanese economic system changed in neoliberalisation and what the outcomes of neoliberalisation have been.

Chapter Five is the case study of Japanese nationalism in neoliberalisation. Here I analyse the economic interests groups under the post-war Japanese economic system and transformation of economic interests in neoliberalisation. Moreover, different types of nationalism in the roll-back and roll-out neoliberal era are explored and observed.

Chapter Six concludes the thesis with a discussion of the findings from the case study of Japan.

Chapter 2: What is Neoliberalism?

2.1. Theoretical aspects of neoliberalism

The origins of the theory of neoliberalism can be traced back to the anti-communist scholar, Friedrich Hayek, and the Mont Pelerin Society, which was created by Hayek and included among others Milton Friedman and Karl Popper.¹

They opposed the social and economic liberalism promoted by Keynes and his followers since the New Deal was introduced and adhered to a far more conservative liberalism than pre-eighteenth century liberalism, which was based on property rights and the sanctity of the market.²

However, the classical liberalism of earlier thinkers to whom they refer, including Adam Smith and John Stuart Mill, deviates in a number of respects from neoliberal “orthodoxy”.³ Smith, for instance, acknowledged the important role the state plays in regulating the market, whereas “Mill advocated worker cooperatives and argued that individual satisfaction was not the universal metric of human welfare”.⁴ On the other hand, in the neoliberal view individuals are defined as rational agents in the market, while the market is supposed to be free from any restrictions and interventions (by the state); market failure is regarded as the result of interventions from outside the market.⁵ For neoliberals, freedom is a property of individuals and is interpreted as freedom of choice, especially in the market.⁶

Since the early 1980s, neoliberal approaches have been applied in economic and non-economic sectors, including market and governmental reforms. After the collapse of the Eastern Block in 1990, neoliberal reform and democracy have been treated as a legitimized force, but current neoliberal policies or reforms are not exactly an embodiment of its aforementioned philosophical principles. Instead, these reforms and policies have in fact emerged from different bodies of theory developed for various purposes. Harvey points out that ongoing neoliberalisation in practice is:

a complex fusion of monetarism (Friedman), rational expectations (Robert Lucas), public choice (James Buchanan, and Gordon Tullock), and the less respectable but by no means uninfluential ‘supply-side’ ideas of Arthur Laffer, who went so far as to suggest that the

¹ Harvey 2005, p. 20. Nail Smith, *The Endgame of Global Capitalism*, New York, Public Affairs, 1998, p. 4.

² Harvey 2005, p.20.

³ Geoffrey M. Hodgson, *Knowledge at Work: Someneoliberal Anachronisms*, *Review of Social Economy*, Vol. LXIII, No. 4, December 2005, pp. 548-9. Richard Robinson, *neoliberalism and the Future World*, *Critical Asian Studies*, 36:3, 2004, p.407, Amy Freeman, *Commentary: In the shadow of liberalism? Comments on Neil Smith’s The Endgame of Globalization*, *Political Geography* 25, 2006, pp. 28-9.

⁴ Hodgson, pp. 584-9.

⁵ Robinson, p.407, Freeman pp. 28-9.

⁶ Robinson, p. 407, Freeman pp. 28-9.

incentive effects of tax cuts would so increase economic activity as to automatically increase tax revenues (Regan was enamoured of this idea).⁷

Contrary to neoliberal theoretical principles, which consider the state as an unwelcome regulator of the market, nation-states themselves have implemented neoliberal reforms and policies as a reaction and adjustment to economic globalisation.⁸ However, there are differences between theoretical neoliberalism and the actual practices of neoliberalism. What is happening now in the world is very different from the world suggested by theoretical neoliberalism. Therefore, it is necessary to examine what the current attributes of neoliberalisation are.

2.2. The Creation of the Global Financial Market as Main Force of Neoliberalisation

From Bretton Woods to neoliberal financial market

Neoliberal approaches to the global financial market emerged from the crash of the Bretton Woods system in 1976. During the period between 1944 and 1976 when the international monetary system was the Bretton Woods system, there was no actual global financial market. As Campbell describes, “there were strong capital controls and regulations on international capital activity throughout the capitalist world, not only in the advanced capitalist countries but also in the Third World”.⁹

During that time, an attempt was being made to force a compromise between domestic autonomy and international norms. This was because not only the great powers, but also most of the industrial sector acknowledged the disastrous consequences brought about by the Great Depression (the result of a liberalised international financial market under the classical gold-standard), which also gave rise to national protectionism (fascism, Nazism, and the New Deal all valued domestic autonomy).¹⁰ In terms of international liquidity, the Bretton Woods system firstly adopted the US dollar as its reserve currency, then fixed the exchange rate (maintaining each currency’s fixed exchange rates against the U.S. dollar by Central banks and their governments) and created an indirect gold standard (US\$35 per fine ounce of gold).¹¹ This action was mainly taken as the United States had accumulated an exorbitant amount of gold (over four-fifths of the gold outside the Soviet Union was in the US) and also because of its great competitiveness in production capital,

⁷ Harvey 2005, p.54, also see Robinson, p. 407.

⁸ Gilpin Robert, *Global Political Economy* (New Jersey, 2001), ch. 15, Al Campbell, *The Birth of Neoliberalism in the United States: A Reorganisation of Capitalism*, in Saad-Filho and Johnston ed., *Neoliberalism: A Critical Reader* (London, 2005).

⁹ Campbell, p. 189.

¹⁰ Campbell, p. 189.

¹¹ Jan Toporowski, *A Haven of Familiar Monetary Practice: Theneoliberal Dream in International Money and Finance*, in Saad-Filho and Johnston ed., *Neoliberalism: A Critical Reader* (London, 2005) p. 107.

including the manufacturing sector.¹²

That is to say, the Bretton Woods system tried to guarantee a state's domestic economic independence and a stable exchange rate by sacrificing the international mobility of their capital, but the distinctive exception was the United States, "which had very few restrictions on international capital movements".¹³ The U.S. was given a special privilege of 'seigniorage': "its residents could pay for their excess imports with dollars conveniently printed for them by the Federal Reserve System".¹⁴ Technically, all other countries were required to keep their imports under control by "deflationary demand management, in order not to run out of foreign currency to pay for imports".¹⁵

However, this tight control over international money flow under the Bretton Woods system had seriously deteriorated by the end of 1950s. By 1958, European countries perceived that they had accumulated enough international reserves (mainly US dollars) to "restore currency convertibility".¹⁶ This turn of events proved to be satisfactory to both the New York banking circle, which was striving to play a more autonomous role as lender to the world, and the British government, which was "experiencing problems in its sterling balances".¹⁷ Eventually, the British government lifted its regulations over dealing in dollar deposits in 1959, and the market was allowed to locate itself in London. The Eurocurrency market then emerged and in 1963 the issue of bonds in the market was allowed by the British government.¹⁸

Although the Eurocurrency market was still not fully liberalised, the creation of a largely unregulated international capital market had eroded the nation-states' capital control under the Bretton Woods system.¹⁹ The United States, in particular, faced severe difficulty in its balance-of-payments, because US banks expanded their lending in the Eurocurrency market.²⁰ The United States tried to resolve the problem by implementing capital controls starting in 1963, but these regulations only resulted in the further expansion of Eurocurrency transactions. As a result, it led to an increase in the threat to replace the New York market with the Eurocurrency market as the centre of international transactions.²¹

During the Vietnam War, "the outflow of the US dollar reached record

¹² Toporowski, p.107, Gilpin 1986, pp. 310-4.

¹³ Campbell, p.189.

¹⁴ Toporowski, p. 108.

¹⁵ Toporowski, p. 108.

¹⁶ Campbell, p. 189.

¹⁷ Campbell, p. 189.

¹⁸ Campbell, p. 189, Gilpin 1987, pp. 314-7.

¹⁹ Campbell, p. 189, Gilpin 1987, pp. 314-7.

²⁰ Campbell, p. 189, Gilpin 1987, pp. 314-7.

²¹ Campbell, p. 191.

levels”²², and the pressure on the dollar kept increasing. Eventually the Bretton Woods exchange system crashed in 1971.²³ Europe and Japan argued for a return to a fixed exchange rate backed by “significantly strengthened capital controls based on international co-operation” as a post-Bretton Woods international monetary system, which would maintain their interests over exports to the US.²⁴ However, the United States refused this approach, and declared its intentional implementation of a liberalised approach (to remove all capital controls, and let the exchange rate float) to maintain its privileged position as the hegemonic issuer of reserve currency. The competitiveness of the US’s productive capital had deteriorated, and the expanded U.S.-owned productive capital overseas “came to strongly oppose all international capital controls, both domestic and foreign, for its own operational reasons”.²⁵ Eventually “faced with a currency crisis in February 1973, the United States announced it would end all capital controls by December 1974, and in fact eliminated them by January 1974”.²⁶ The current neoliberal international monetary system had begun to emerge.

2.3. Two Aspects of Neoliberalisation: Roll-Back (reaction) and Roll-Out (proaction) Neoliberalisation

Since Underhill described the ongoing financialization as one of the great and ‘unplanned’ transformations of the twentieth century, it is also vital to fully understand and grasp the development of neoliberalisation (including financialisation) over time.²⁷ There are certain differences between neoliberalisation at an early stage and recent neoliberal reforms. Tickell and Peck’s framework of roll-back and roll-out neoliberalisation can be used for explication purposes²⁸, and actual reforms in Western countries (mainly the United States and the United Kingdom) can be used as an example of these reforms.

2.3.1. The Roll-Back (reaction) Neoliberal Reforms

The early reform and liberalisation of government and the market in the 1980s is described as the roll-back (reaction) neoliberalisation.²⁹ The roll-back refers to ‘rolling back the state’. It was not simply a shift in the distribution of wealth or cost

²² Ethan B. Kapstein, *Governing the Global Economy: International Finance and the State* (Cambridge, Massachusetts London), 1994, p. 36.

²³ Campbell, p. 191.

²⁴ Campbell, p. 191.

²⁵ Campbell, p. 191.

²⁶ Campbell, p. 191.

²⁷ Geoffrey R. D. Underhill, *Private markets and public responsibility in the global system: conflict and cooperation in transnational banking and securities regulations*, in Geoffrey R. D. Underhill, G. R. D. ed., *The New World Order in International Finance* (Basingstoke, 1997), p. 42.

²⁸ While there are sequential aspects to roll-back and roll-out neoliberalisation, Tickell and Peck point out that they are not intended as chronological stages, p.176.

²⁹ Tickell and Peck, p. 177.

cutting, was an adjustment of the whole society to acquire new ‘benefits’ from international financial markets while shifting the costs, like the effects of inflation, to a relatively lower stratum of society. As Tickell and Peck describe, a number of neoliberal principles were used to implement the roll-back face of neoliberalisation:

minimize the size of government, make space for competitive forces, enlarge the scope and reach of the private sector, (re)distribute wealth on the basis of market principles, breaking down labour unions and other ‘anti-market’ or ‘anti-competitive’ institutions and so forth.³⁰

A great number of reforms occurred in the name of neoliberal goals; Keynesian welfare-states were attacked to cut ‘costly’ public services; corporate and middle-class taxes were cut significantly; and labor unions were weakened, which consequently led to a decline in workers’ share of the profit.³¹ Here, I discuss, first, the roll-back of the state and privatization in the public sector, followed by reforms in other sectors.

In the United States, the attack on and the dismantling of the welfare state took place in the name of institutional reform and construction.³² Businesses were employed to minimize public services and improve their ‘efficiency’. The first model of the reform was the reform of the New York City Council.³³ In 1975, the reform of a bankrupted New York City began.³⁴ The indirect cause of New York City’s bankruptcy was the cut in federal aid by President Nixon. Faced with a decrease in revenues during the recession, the New York City Council faced a severe budget deficit by the mid 1970s.³⁵ Their initial resolution plan was to bridge the gap between revenues and outlays by borrowing from financial institutions, but the plan was rejected by investment bankers. Therefore, it was decided to adopt a neoliberal financial plan, in which financial institutions’ and bondholders’ returns were prioritized over the well-being of the city’s citizens.³⁶

These investment bankers claimed that in order to rescue a bankrupted New York City, it was necessary to give bondholders preferential treatment by paying them off first and after that whatever city tax revenue was left should go towards welfare services.³⁷ Consequently, a number of reforms took place, for example the pension funds of the city’s municipal unions were required to be invested in city bonds; and wage freezes and cutbacks were executed in public employment and social services, including public health, education, and transport services.³⁸ User fees were

³⁰ Tickell and Peck, p. 173.

³¹ Tickell and Peck, p. 173, Harvey 2005 ch. 2.

³² Harvey 2005, ch. 2.

³³ Harvey 2005, pp. 44-48.

³⁴ Harvey 2005, pp. 44-48.

³⁵ Harvey 2005, pp. 44-48.

³⁶ Harvey 2005, pp. 44-48.

³⁷ Harvey 2005, p. 45.

³⁸ Harvey 2005, pp. 46-7.

implemented in the city's various social provisions. For instance, tuition fees were introduced at the City University of New York for the first time.³⁹ City government was converted from a social democratic entity to an entrepreneurial one with urban governance through public-private 'partnerships'. According to Harvey, this New York City model came to be used in government reform domestically under the Regan administration and internationally through the IMF in the 1980s.⁴⁰

Since the trade in financial capital exceeded the trade in manufacturing capital and commodities, it was understood that it was necessary to benefit from the global financial market to survive in a global economy. The roll-back phase of neoliberal reforms in the UK was wholesale privatisation, but it was undertaken to protect British interests in international finance, specifically by the City of London.⁴¹ When the UK yielded to IMF control in 1975-6, the IMF provided two alternatives, either "submitting to IMF-mandated budgetary restraint and austerity or declaring bankruptcy and sacrificing the integrity of sterling, thus mortally wounding the financial interests of the City of London".⁴² The UK took the first alternative. The Thatcher administration privatised state-run enterprises to strengthen the national treasury and eliminate "burdensome future obligations towards losing enterprises".⁴³ These privatisations were aimed at introducing a corporate culture in government bureaucracy, and promoting greater efficiency, individual/corporate initiatives, and innovation.⁴⁴ Under the early phase of the Thatcher administration, British Telecom, British Aerospace, British Airways, steel, electricity and gas, oil, coal, water, bus services, railway, and also smaller state enterprises were privatised.⁴⁵

Liberalisation in other markets and Restructuring Income Distribution for Neoliberal Society

Adopting neoliberal reforms for the state requires the adoption of other neoliberal reforms in the economic and social spheres. These include deregulation of markets, weakening of labour unions, and the tax reforms favoring the wealthy. Firstly, the Reagan administration launched the Economic Recovery Act (ERA), and one of its three main objects was the deregulation of industries, such as the oil, banking, telecommunications and air travel industries in order to free up competition.⁴⁶ As a result, each market became more oligopolistic through 'free' competition between

³⁹ Harvey 2005, pp. 46-7.

⁴⁰ Harvey 2005, p. 48.

⁴¹ Harvey 2005, p. 56.

⁴² Harvey 2005, p. 58.

⁴³ Harvey 2005, pp. 60-1.

⁴⁴ Harvey 2005, p. 61.

⁴⁵ Harvey 2005, p. 60.

⁴⁶ Michel Albert, *Capitalism vs. Capitalism* (London, 1993), p. 30.

large conglomerates and small and medium firms.⁴⁷ In the mean time, the UK was opened up to international competition and investment.⁴⁸ Traditional British industries, including the steel industry of Sheffield and shipbuilding of Glasgow, were demolished by foreign competition during the 1980s.⁴⁹

Second, the labor market was liberalized. In the process of liberalising the labour market, labour unions, obstacles to the reform, were attacked.⁵⁰ In the US the National Labour Relations Board, originally founded to supervise capital-labour relations, was transformed so as to undermine the rights of labourers.⁵¹ Reagan also made a severe attack on PATCO, the air traffic controller's union in 1981.⁵² The Reagan administration, with their iconic assault against the white collar labour union, succeeded in weakening the labour unions, and eventually created an 'individualistic and competitive' labour market reflecting the interests of industry.⁵³ Moreover, although the Reagan neoliberal reforms in the labour market did create 18 million jobs, most of them were in the low-paid service industry not in manufacturing, "and many were little better than odd jobs, with few prospects, in restaurants, shops, and most noticeably in security and protection firms".⁵⁴ In the meantime, over 2 million jobs disappeared from productive industries, and trade deficits accumulated until they reached an amount of historic proportions.⁵⁵ In the UK, Thatcher undermined mining and automobile industries, with their strong unions and militant labour traditions.⁵⁶ The overall effect of destroying labour unions was "to transform the UK into a country of relatively low wages and a largely compliant labour force (relative to the rest of Europe) within ten years".⁵⁷

Finally, there were historic cuts in corporate and top personal tax rates.⁵⁸ For instance, income tax was "considerably simplified by abolishing a large number of deductions and reducing the tax rates, especially in the higher bands".⁵⁹ According to Harvey, the top personal tax rate in the US was cut by 42 percent from 70 to 28 percent by the end of 1980s.⁶⁰ The trend in tax cuts has continued in recent years under the Bush junior administration. Estate tax (a tax on wealth), taxation on income

⁴⁷ Uchibashi Katsuto, *Nightmare Cycle: cycle of neoliberalism* (Akumu no saikuru: neoriberarizumu jyunkan), (Tokyo, 2006), pp. 31-2.

⁴⁸ Harvey 2005, p. 59.

⁴⁹ Harvey 2005, p. 59.

⁵⁰ Tickell and Peck, p. 173.

⁵¹ Harvey 2005, p. 25.

⁵² Harvey 2005, p. 25.

⁵³ Harvey 2005, pp. 52-3.

⁵⁴ Albert, p. 55.

⁵⁵ Albert, p. 55.

⁵⁶ Harvey 2005, p. 59.

⁵⁷ Harvey 2005, p. 59.

⁵⁸ Harvey 2005, pp. 14-9, Albert, p. 30.

⁵⁹ Albert, p. 30.

⁶⁰ Harvey 2005, p. 25.

from investments and capital gains tax were removed, while in the meantime “taxation on wages and salaries was maintained”.⁶¹ Eventually, the share of the top 1 percent of income earners in the US reached 15 percent of the total income in the US by the end of the century, and among them the top 0.1 percent of income earners tripled from 2 percent to just over 6 percent between 1978 and 1999.⁶² Moreover, in the same period “the ratio for the median compensation of workers to salaries of CEOs increased from just over 30 to 1 in 1970 to nearly 500 to 1 by 2000”.⁶³

2.3.2. Roll-Out Neoliberalisation

Tickell and Peck describe some of the neoliberal reforms that have taken place since the end of 1980s as roll-out (proaction) neoliberalism.⁶⁴ While the focus of roll-back and the roll-out neoliberalisation is “the roll-back of Keynesian welfarist institutions and various experiments in market-making”, on the other hand the focus of roll-out neoliberalisation since the early 1990s has been on deepening and normalizing neoliberal reforms and on neoliberal state-building on a global scale.⁶⁵ In the roll-out face of neoliberal reforms, according to Tickell and Peck, neoliberalism became “a truly hegemonic ideology” in political and economic discourses in the developed and developing capitalism countries, and neoliberalism also became the central ideology for the formations of multinational and regional institutions, including NAFTA and the EU.⁶⁶ While the ordinary people become more and more excluded from the decision-making process for key economic policies, states, which previously worked as a redistributive agency and provided at least a certain level of democratic accountability for political and economic policies, are transformed to an agent representing interests of a transnationalized class.⁶⁷ Moreover, for the processes of roll-out neoliberalisation, the US type of economy is often taken as a model.⁶⁸ For instance, a market-oriented entrepreneurial society is encouraged.⁶⁹ Free competition is encouraged in a number of markets, including labour market, and therefore “a Darwinian order of market distribution” and its unequal result are legitimized.⁷⁰

Radical neoliberal reforms were implemented for the financial markets. Since the 1980s domestic markets have been ‘forced’ to open and the roles of states have been modified to be compatible with the philosophy of international finance. International organizations, including the World Trade Organization (WTO), the

⁶¹ Harvey 2005, p. 17.

⁶² Harvey 2005, p. 25.

⁶³ Harvey 2005, p. 16.

⁶⁴ Tickell and Peck pp. 175-8.

⁶⁵ Tickell and Peck, p. 175.

⁶⁶ Tickell and Peck, p. 175.

⁶⁷ Tickell and Peck, pp. 176-8.

⁶⁸ Tickell and Peck, p. 176.

⁶⁹ Tickell and Peck, p. 176.

⁷⁰ Tickell and Peck, p. 176.

International Monetary Fund IMF and the World Bank, now play a surveillance role in maintaining the global market and its rules. There are a number of important factors which continue to drive the world towards roll-out neoliberalism. For instance, trade in financial capital has exceeded trade in productive capital globally; the number and influence of MBA graduates in academia, the mass media, and international and domestic institutions have also increased. However, the most influential factors are the industrial shift from production to finance in the US and its use of its competitive financial sector to maintain its dominant position in international society.⁷¹

The origin of roll-out neoliberal financial reform

The origin of roll-out neoliberalism can be traced back to the deregulation and liberalisation of the financial sector under the Reagan administration. This policy of liberalisation and deregulation fuelled an upsurge in stocks and other derivative markets, and consequently the “Dow-Jones index tripled, while the futures and options markets grew twice or three times greater than that recorded on Wall Street”.⁷² This prolonged boom created new financial services, including leveraged buyouts (LBOs)⁷³, and the boom itself was supported by these new activities.⁷⁴ Not only financial institutions, but also manufacturing companies became the participants in the financial markets, and they made easy money at the expense of their long term interests.⁷⁵ The best example was the expansion of the volume of merger and acquisitions (M&As) on the stock market. M&As were actually very common in the US stock market before the neoliberal era. Traditionally M&As were used for strengthening competitiveness, and gaining tax benefits, and were regulated by different laws in different states.⁷⁶ However, once such laws were lifted (when the US Supreme Court struck down one such law, the Illinois Business Takeover Act, in June 1982 – simultaneously invalidating many others), the situation changed dramatically.⁷⁷ Hostile takeovers dominated the market, and the total volume of M&As jumped up from \$ 20 billion annually in the 1968-70 period, to \$90 billion

⁷¹ David Harvey, *The New Imperialism* (Oxford, 2003), pp. 62-3 Albert, ch. 4

⁷² Albert, p. 68.

⁷³ One aspect of mergers and acquisitions (M&As), was the use Junk bonds to raise funds for M&As. Junk bond is like conventional corporate bonds issued by firms wishing to raise long-term finance, the interest is fixed and paid to bondholders twice a year, but the market price could varied. The main differences between Junk bonds and conventional bonds are the rate of risk and return. Junk bonds are usually rated below investment grade by rating companies, like Standard and Poors (S&P), at the time of purchase. These bonds have a higher risk of default or other adverse credits, but typically pay higher yields than better quality bonds in order to make them attractive to investors. For more detail see Strange Susan, *Mad Money* (Manchester, 1998), pp. 33-6.

⁷⁴ Albert, p. 68.

⁷⁵ Albert, pp. 68-71, Harvey 2005, pp. 32-3.

⁷⁶ Albert, pp. 70-4.

⁷⁷ Albert, p. 69.

annually between 1980 and 1985, finally reaching \$247 billion in 1988.⁷⁸

M&As were often used by dealers (like investment banks) to increase a targeted company's quoted market value by, for example, asset-stripping (dividing a targeted company into several different companies and issuing new stocks to sell them on the market after taking over the company). The expansion of hostile takeovers brought unwelcome costs and heavy financial burdens to companies. In order to prevent hostile M&As, every manager working in a company had to pay significant attention to their companies' stock price. Moreover, in order to maintain the relatively high stock price, managers and companies had to adapt "strategies and behaviour patterns which simply did not make good industrial and economic sense".⁷⁹ Companies began to cut spending in advertising, research and development, while they were hiring high salaried lawyers and experts to protect their companies from 'guerrilla' attacks from financial dealers.⁸⁰ Furthermore, the participants in the stock market and the stock market itself provoked companies into carrying out unwise activities, that is, maximising short-term profits for higher dividends. Stock market regulations worsened this situation in that Wall Street began to require listed companies to show their profit every three months, called the tyranny of the quarterly report. The dominant force of institutional investors (pension funds and insurance companies, for the most part) in the market worsened the tendencies.⁸¹

As a result, "financial markets have assumed almost dictatorial powers over the economy in general", and faced with massive exports from Europe and Japan (despite the fact that the devaluation of the US dollar was supposed to provide competitive advantages to US manufacturers), the US kept losing its competitive advantage in large numbers of industries, except for agribusiness and defense.⁸² Eventually, as Harvey describes:

Threatened in the realm of production, the US had countered by asserting its hegemony through finance. But for this system to work effectively, markets in general and capital markets in particular had to be forced open to international trade (a slow process that required fierce US pressure backed by use of international levers such as the IMF and an equally fierce commitment to neoliberalism as the new economic orthodoxy).⁸³

The US has been the largest export destination for many countries, and the US dollar has been the reserve currency that is used in most international transactions of commodities, including oil and metals. Therefore the US's industrial shift to finance and the creation of its hegemonic position through international finance

⁷⁸ Albert, p. 69.

⁷⁹ Albert, p. 74.

⁸⁰ Albert, p. 74.

⁸¹ Albert, p. 74.

⁸² Albert, p. 72.

⁸³ Harvey 2003, pp. 62-3.

became the main driving force of the implementations of neoliberal reforms in the rest of the world.

In order to explain the creation and maintenance of the US's hegemonic position through international finance, it has to be firstly pointed out how the world was caught up in the US money cycle. In today's post-Bretton Woods system, the US enjoys the seigniorage position as long as other countries are willing to hold the US dollar as their reserve, and the US could adjust its foreign debts by revaluing or devaluing the dollar.⁸⁴ The US is also free from the demands and requirements of structural adjustment which the IMF or the World Bank requires of other countries (especially poor, debtor nations since 1980s) over their balance (imports/exports) of payments.⁸⁵ Since the US is the largest export destination for many countries and the US dollar is the reserve currency, supporting the US dollar is the only alternative for these countries, especially for developing countries, like Asian countries, although supporting the US dollar became costly, especially from the late 1980s. These countries' exports are paid for in US dollars, but they are obliged to keep the US dollar in reserve to pay their debts and patents fees, and provide hard currency for multinational corporations (MNCs) to remit their profit.⁸⁶ Thus, their small amounts of export earnings are rarely invested to improve their domestic economy.

In addition, the US has continued to maintain its hegemonic position in two ways; as a debtor and as a creditor in the global financial market. As a debtor, to compensate for their current account deficit and maintain their seigniorage position, the US has required supportive countries to buy its Treasury bonds, securities, and other assets.⁸⁷ To attract investment, the interest rates were kept high throughout the 1980s and 1990s.⁸⁸ West Germany and Japan bought US Treasury bonds in the early period (between 1971 and 1985), then Japan became the largest creditor of the US after West Germany refused to support them (since 1985), and from the 1990s Southeast Asian countries, China and India, have begun to support the US dollar.⁸⁹ As a creditor, the United States reinvests these received investments into domestic and global financial markets. Consequently, domestic financial markets are now thriving, and the profitability of the financial sector has kept rising. The funds (total assets minus debt) of financial corporations nearly doubled from 18 percent in the 1970s to nearly 30 per cent of that of non-financial corporations by 2000.⁹⁰ Non-financial

⁸⁴ Pettifor Ann, *The Coming First World Debts Crisis* (New York, 2006), pp. 40-50.

⁸⁵ Pettifor, p. 42.

⁸⁶ Pettifor, p. 50.

⁸⁷ Mototada Kikkawa, *Mane haisen (Lost in Money Policy)* (Tokyo, 1998), pp. 27-34, Strange, ch. 3, Gilpin 1987, pp. 331-6, Pettifor, pp. 98-100.

⁸⁸ Gérard Duménil and Dominique Lévy, *The Neoliberal (Counter-)Revolution*, in Saad-Filho and Johnston ed., *Neoliberalism A Critical Reader* (London, 2005), pp. 13-4.

⁸⁹ Kikkawa, ch. 2, Pettifor, pp. 98-100.

⁹⁰ Duménil and Lévy, p. 14.

sectors also have become involved in financial activities directly and through affiliates.⁹¹ Internationally, US based financial institutions have steadily expanded their business. For instance, “Citigroup comprises more than 3,000 corporations located in many countries, and its total assets amounted to 400 billion dollars in 2000”.⁹²

Moreover, other developed countries, like the UK and Australia, which have been suffering from a current account deficit, also rely strongly on the financial sector to compensate for their deficit. For example, in Australia, one of only seven countries which are free from government debts, foreign liabilities in the private sector have grown to 130% of GDP from 70% 15 years ago (Reserve Bank of Australia, April 2006), and the UK has had a trade deficit for 30 years now. These countries have “become used to living well beyond their means, as a nation”.⁹³ Since other developed countries have followed and supported the US’s neoliberal financial policy, the US has maintained its hegemonic position.

According to Sassen, in order to retain mobile international capital and create a good investment climate, states in developed and developing countries have transformed themselves into the “ultimate guarantor of the rights of global capital” by sacrificing their role in public welfare.⁹⁴ In their transformation, international organisations have played an important role. In order to limit states’ activities (either developed or developing states), the IMF has imposed structural adjustments on developing countries, and developed countries have been required to follow the rules and regulations of the WTO (because they are members of the WTO) as a ‘global standard’.⁹⁵ In most cases, this type of state guarantees the autonomy of financial institutions and MNCs.⁹⁶

Another important international movement, which has worked in a way to preserve the US’s hegemonic position, is that as American economists expected, in recent years different national systems of political economies seem to have converged into one single model, or at least they have turned into a variety of a political economic systems under one single rule.⁹⁷ Although there are still certain differences

⁹¹ Duménil and Lévy, p. 14, Harvey 2005, pp. 32-3.

⁹² Duménil and Lévy, p. 12.

⁹³ Pettifor, p. 96.

⁹⁴ Saskia Sassen, *Embedding the global in the national: implications for the role of the state* (New York, 1999), p. 166, Neil Brenner, *New State Spaces: Urban governance and the Rescaling of Statehood* (Oxford and New York, 2004), p. 61.

⁹⁵ Leo Panitch, *Fragmented visions: excavating the future of area studies in a post American World*, *Review*, 19/3, 1996, Harvey 2005, p.73 Tickell and Peck, pp. 175-6, Glasmeier and Conroy, pp. 189-194.

⁹⁶ Harvey 2005, p.77, Sassen, p.166.

⁹⁷ Ronald Dore, “Will Global Capitalism be Anglo-Saxon Capitalism?”, *Asian Business & Management*, 2002, 1, Albert Murphy and Kudret Topyan, “Corporate Governance: A Critical Survey of Key Concepts, Issues, and Recent Reforms in the US,” *Employee Responsibilities and Rights Journal*, Vol. 17, No. 2, June 2005.

between national economies, in many countries American business rules, like the importance of the stock market and the priority of shareholder interests, have been increasing.⁹⁸ For instance, the 1990s saw an international boom in M&As, and a number of countries, like Japan, adopted market value accounting and more flexible labour market policies.⁹⁹ This is partly because the ‘penetration’ of American investment banks, which swept through the City of London, has moved onto Frankfurt and Paris and has already taken over 20 percent of the Tokyo stock market.¹⁰⁰ The American economic culture also has strengthened America’s financial hegemony.¹⁰¹ The number of people who have been educated in US business schools has increased in every industry coupled with the activities of American-based think-tanks promoted through the mass media. This legitimises shareholder capitalism, from M&A activities and high dividends to stock options.¹⁰² Moreover, in European cases the European Union has pushed predominantly towards marketist reforms, and a decade-long recession has also finally convinced Japan to adapt a marketist reform.¹⁰³

To sum up, roll-out neoliberalisation aims not to adjust ‘settings’, but to change every aspect of society for the global market, particularly for the global financial market. Domestic markets were ‘forced’ to open and the roles of states were modified to fit the philosophy of international finance. International organizations, including the WTO, the IMF and the World Bank, now play a surveillance role in maintaining the global market and its rules. The most influential factors driving the world towards roll-out neoliberalism seem to be the industrial shift from production to finance of the US and its global policy aimed at using its competitive financial sector to maintain a dominant position in the international economy. Other developed countries, also participate in the global financial market to maintain their positions.

2.4. Neoliberal-International Monetary System

Theoretically, after the Bretton Woods system was eliminated, the floating exchange rate system was expected to provide a resolution to the dispute between domestic and international finance by “leaving the determination of their exchange rates up to the market”, but soon this ‘wishful expectation’ was hindered by the Eurocurrency market.¹⁰⁴ First, the Eurocurrency market made it possible for a state’s macroeconomic policies to influence another’s. For instance, states could intervene in currency exchange to improve a state’s trade competitiveness, or to solve inflation in

⁹⁸ Dore, p. 15.

⁹⁹ Gilpin 2001, p. 302, Mototada Kikkawa, *En ga doru ni nomikomareruhi* (The Coming Dollarization of Japan) (Tokyo, 2005), pp. 99-108.

¹⁰⁰ Dore 2002, p. 15.

¹⁰¹ Dore 2002, p. 15.

¹⁰² Dore 2002, p. 16.

¹⁰³ Dore 2002, p. 16.

¹⁰⁴ Gilpin 1987, p. 143.

their domestic market.¹⁰⁵ In particular, the US fiscal and monetary policies had a significant influence on the exchange rate of the US dollar and international capital flow.¹⁰⁶ Since the US dollar remained as an international reserve currency, the erratic fluctuations in the dollar's exchange rate (for instance, at the time of the first and second oil shocks) volatised not only the international trade of goods and services, but also undermined the stability of a contemporary society based on money.¹⁰⁷

A volatile exchange rate, as Strange argues, causes uncertainty in the market and society as a whole, and this volatile exchange rate leads to the increase in the numbers of participants who engage in speculative activities, including futures, forwards and swaps, and more specifically finance-related speculations (derivatives).¹⁰⁸ Among the participants in speculative markets, most view their aims as risk-averse rather than gambling. In the market, they try to avoid uncertainty by hedging against it. However, the speculative market also involves other participants, like foreign exchange dealers and financial futures operators who prefer to “risk a little for a slim chance of making a great gain” rather than “risk large amounts to make a much more likely gain”.¹⁰⁹ Speculative markets and their expansion are the result of the direct interaction between those two different types of people who are “averse to bearing the risks attendant on capricious change” and who are keen to gain large amounts of wealth by using “a widespread demand for greater certainty”.¹¹⁰ This means that speculative markets themselves require uncertainty to exist, and their expansion is another factor which can create a vicious circle of uncertainty in the market. Thus, a fluctuating exchange rate is likely to make speculative activities intense, and this leads to uncertainty in the market and society as a whole.

Moreover, finance is fundamentally different from other industries. While manufacturing (i.e. inventing and selling) and trade (i.e. buy and selling) industries are required to add some extra value or services for their business, finance is “virtually alone among trades in allowing the dealer to make a profit by selling his or her goods (securities and commodities)” without adding any new values.¹¹¹ The productivity of the financial sector depends on the volume of trade, so inherently the

¹⁰⁵ Gilpin 1987, p. 145.

¹⁰⁶ Gilpin 1987, p. 145.

¹⁰⁷ Gilpin 1987, p. 145, Susan Strange, *Casino Capitalism* (Oxford, 1986), pp. 8-13. For instance, in the case that yen doubles its price against the dollar, internationally Japan's national wealth in terms of the dollar also doubles, but in the meantime it also doubles the price of Japanese export goods.

¹⁰⁸ Strange 1998, pp. 29-33. A good definition of derivatives is that they are ‘contracts specifying rights and obligations which are based upon, and thus derive their value from, the performance of some underlying instrument, investment, currency, commodity or service index, rights or rate’ (Cornford 1995: 347, adapted from a 1993 report by the United States Commodity Futures Trading Commission).

¹⁰⁹ Strange 1986, p. 110.

¹¹⁰ Strange 1986, pp. 110-1.

¹¹¹ Albert, p. 62.

financial sector seeks deregulation and liberalisation.¹¹² Moreover, as Pettifor argues, since financial trade does not add any new value to goods, an increase in the volume of financial trade fundamentally hurts and exploits not only other industries, but also society as a whole, at least in the long term.¹¹³

Since the contemporary economy is based on credit (including paper money, credit card, bank loan and account), the total pie of an economy (total purchasing power) is decided through the banks' (including central bank and other banks) credit creation.¹¹⁴ Therefore, banks' credit creation can control nominal growth of an economy.¹¹⁵ Although an increase of bank's credit creation generates nominal economic growth of a country, the nominal growth can be in the form of inflation, and whether the nominal growth is real or not is determined by an economy's potential growth rate.¹¹⁶ Therefore, as long as newly created credit (new purchasing power) is used to improve the potential growth rate, which is an economy's productivity, "it is possible to increase nominal growth (by increasing credit creation) without creating any inflation".¹¹⁷ However, if the newly created credit is used for unproductive activities, like speculation it causes merely inflation and no real growth in its economy.¹¹⁸ Therefore, when newly created credit is used to increase the volume of trade in the financial market (including speculations and derivatives), this expansion of financial trade fundamentally hurts other industries, and society as a whole because the newly created credit does not work to increase a country's potential growth rate, but works to create inflation. We should bear these characteristics of financial capital in mind when we look at the industrial shift in the US and the expansion of its financial industry.

Faced with a fundamentally volatile financial system created by a free floating exchange rate and the massive expansion of speculation activities, international society, notably the US and major financial authorities, have hesitated to show strong initiative to implement any workable regulations or restrictions.¹¹⁹ This is partly because these countries have national interests that might be eroded by international regulations, and partly because rapid technological developments,

¹¹² Campbell, p. 190.

¹¹³ Pettifor, ch. 2.

¹¹⁴ Richard A. Werner, *Prince of the Yen: Japan's Central Bankers and the Transformation of the Economy* (London, 2003) p.185. More detail and economic formula, see Richard Werner, *No Recovery Without Reform? An Evaluation of the Evidence in Support of the Structural Reform Argument in Japan*, *Asian Business & Management*, 2004, pp. 30-3. Richard Werner, *New Paradigm in Macroeconomics: Solving the Riddle of Japanese Macroeconomic Performance* (New York, 2005), ch. 3.

¹¹⁵ Werner 2003, p. 185.

¹¹⁶ Werner 2003, p. 185.

¹¹⁷ Werner 2003, p. 185.

¹¹⁸ Werner 2003, p. 185.

¹¹⁹ Strange 1986, pp. 38-46, Strange 1998, pp. 8-9.

including those in the field of computers, have made it possible for different financial centres to connect to each other and escape domestic regulation before these countries create international regulations or cooperation.¹²⁰ The existence of unregulated financial markets outside national borders has provided financial institutions with a way to escape domestic regulations, therefore states were required to deregulate and modify their domestic financial system to fit the international environment to promote their interest.¹²¹ The deregulation and liberalisation of the domestic financial market started in the US and was followed by other developed countries like the UK.¹²² For instance, by the end of 1980s US officials lifted a number of regulations limiting competition in financial sectors, including “the separation of financial and non-financial firms (no universal banking), and the separation of commercial banking from investment banking”.¹²³

When domestic financial markets are deregulated and liberalized, banks succeed in passing risks onto others by changing their traditional position from intermediary (taking in deposits and making loans) to brokerage and proprietary trading (dealing in bonds, securities, and derivatives), like investment banks and securities companies.¹²⁴ The connection between the domestic and international financial market had increased uncertainty and so, it became difficult for commercial banks to continue their traditional business, especially in developing countries. This is because in such a situation, the past economic performance of developing countries no longer became a safe or reliable guide to their present or future performance.¹²⁵ Instead of bank loans based on long-term investment, banks and other financial companies and agencies engaged in rapidly expanding derivative trades and dealing securities. Relatively unregulated and untaxed dealings of derivatives, for instance, provided them with not only comparatively low business costs, but also an opportunity to lay off their “liabilities to clients” by increasing their converse bets when the movement of markets shows one obvious direction, either up or down.¹²⁶ Increased uncertainty and risks made banks change their business.

Securitization has also provided an opportunity for banks and other financial institutions to avoid taking risks in investments. The origin of securitization can be traced back to the issue of mortgage-backed bonds to address the rising demand in house mortgage rates in the mid and late 1970s in the US.¹²⁷ Again under volatile

¹²⁰ Strange 1986, pp. 38-46, Strange 1998, pp. 8-9.

¹²¹ Strange 1986, pp. 47-59, Gilpin 2001, pp. 271-2.

¹²² Strange 1986, pp. 47-59, Campbell, pp. 192-3.

¹²³ Campbell, p. 19.2

¹²⁴ Strange 1998, pp. 33-4.

¹²⁵ Strange 1986, pp. 137-142, Strange 1998, ch. 6.

¹²⁶ Strange 1998, p. 31.

¹²⁷ Lewis S. Ranieri, The origins of Securitization, Sources of Growth, and Future Potential, in Kendall and Fishman ed., A Primer on Securitization (Cambridge Massachusetts, London, 1996).

exchange and interest rates for financial institutions and companies, it became unrealistic to “engage in fundraising over the short term and in fund management over the long term”.¹²⁸ In developed countries, securitization became a common fundraising process. For instance, by the early 1990s more than 80% of major businesses had raised their funds through securities in developed countries.¹²⁹ In developing and undeveloped countries, the Mexican debt crisis in the early 1980s emphasised the fact that the past economic performance of developing countries was no longer a safe guide to their present or future performance. Thus, securitization was used as its rescue package, and the Brady Plan deal was launched in 1989. In the Brady Plan deal, banks were prevailed upon to cut their losses (about one-third of their interests), and in return they obtained Brady bonds backed by the US government, the World Bank, the IMF, and Japan’s Export-Import Banks.¹³⁰ During the following seven years, twenty-six countries signed up for Brady deals.¹³¹ Then, securitization eventually came to be used on a large scale for not only lending in developed countries, but also lending in developing countries.

After the first Mexican crisis banks began to engage more and more in the brokering business (portfolio investment) rather than providing bank loans, therefore “when Mexico blew again in late 1994, it was almost a non-event to the banks which had suffered similarly in 1982. They had brokered customers’ money into Mexican securities at the customers’ own risks, but had made few direct new loans to Mexican borrowers”.¹³² Mexico was not the only country that experienced a shift to securitized investment. About \$450 billion was invested in the emerging markets of Asia and Latin America by the managers of British and American insurance and pension funds between 1990 and 1993.¹³³

To sum up, as far as the above argument is concerned, current ongoing neoliberalisation is typified by financialization on a global scale. The crash of the Bretton Woods system, which was nationally controlled and which segmented the international monetary system, resulted in the emergence of a global financial market, and neoliberal reforms have been carried out to deal with this newly emerged global financial market. The restricted international monetary system was transformed to a neoliberal international monetary system, in which denationalised capital has begun to flow transnationally. For developed countries, neoliberal reforms have been unavoidable in their ‘battle’ to improve their position when faced with global

¹²⁸ Yusuke Kawamura, *Securitization of Finance*, in *Faire Fact Series 11 Japan’s Financial Markets* (Tokyo, 1991), p. 337.

¹²⁹ Kawamura, p. 337.

¹³⁰ Strange 1998, pp. 101-6.

¹³¹ Strange 1998, pp. 101-6.

¹³² Martin Mayer, *The Bankers: the next generation* (New York, 1997), p.446.

¹³³ Strange 1998, p. 103.

competition in the financial market, and for developing and undeveloped countries, there has been no alternative but to adhere to the ‘rules of globalisation’. International society has not been willing to restrict and regulate a fundamentally volatile financial system, which was mainly caused by free floating exchange rates and the massive expansion of speculative activities, because of their national interests. Moreover, passing on the risks of investments to others, banks also have changed their traditional position from taking in deposits and making loans to dealing in bonds, securities and derivatives like other financial institutions, such as investment banks and securities companies. In this regard, powerful private interests (and states as their agents) can be seen as promoting themselves by imposing substantial costs and risks on other sectors in society.

2.4.1. Fallibility & Reflexivity

The factor that generates insecurity is the nature of the market, especially the financial market, because markets are fundamentally shaped by human expectations, and human expectations prevent a rational prediction of a market’s behaviour.¹³⁴ The main forces that drive markets are not “mechanical processes of cause and effect”¹³⁵ but what George Soros has termed “reflexive interaction”.¹³⁶ Markets comprise highly sensitive and inflammable interactions among beliefs which cannot be self-regulated.¹³⁷ Especially in financial markets, the participants’ predictions and expectations about the future affect each other and create booms and downturns.¹³⁸ Financial markets are unlikely to attain equilibrium, and overestimating future benefits is the norm in financial markets.¹³⁹ The unstable and changeable nature of financial markets makes the present world economy, which is organized as a system of free markets, fundamentally volatile.¹⁴⁰ The volatile nature of financial markets and their increasing presence in the economy require non-financial corporations to spend more costs on evading the negative effects of financial markets, and the costs are likely to be shifted to labours and ordinary consumers.

Moreover, the integration of the global financial market has created a situation in which the spread of a financial market’s collapse or crisis to another can easily occur.¹⁴¹ For instance, in 1990s there were two financial crises that showed a typical ripple effect. The so-called peso crisis and tequila hangover, which hit Mexico

¹³⁴ John Gray, *False dawn: the delusions of global capitalism* (London, 1998), p. 196.

¹³⁵ Gray, p. 196.

¹³⁶ George Soros, *The Crisis of Global Capitalism* (New York, 1998).

¹³⁷ Soros, ch. 2.

¹³⁸ Soros, ch. 2.

¹³⁹ Soros, ch. 2.

¹⁴⁰ Soros, ch. 2.

¹⁴¹ Harvey 2005, pp. 94-5, David N. Balaam and Michael Veseth, *Introduction to International Political Economy Third Edition* (New Jersey, 2004), pp. 172-3.

in 1995, infected immediately Brazil and Argentina with devastating effects.¹⁴² Another example is the Asian financial crisis of 1997-98. The event started in 1997 in Thailand, and its contagion spread to elsewhere in Asia, including Indonesia, Malaysia, Taiwan, and South Korea.¹⁴³ Furthermore, this volatile nature of the financial market is vital for hedge-funds to run their business, and often they cause collapse and crisis of the financial market by themselves.¹⁴⁴

Moreover, finance is fundamentally different from other industries, because while manufacturing and trade industries are required to produce new value and add some extra value or services for their business, financial trade does not add any new value to goods; profit is different from arbitrage. Although the conventional role of financial sector was the supply of investment capital for the production sector, the role has been shifting more and more to earn arbitrage profit from portfolio investments and the domain of speculation. Therefore, in the neoliberal financial markets the productivity of the financial sector depends on the volume of trade in the financial markets, including currency exchange, trading derivatives and speculations. An increase in the volume of trade in such financial markets does not work to improve actual life for people in the world. Rather it will result in inflation on the global scale.

2.5. Conclusion

The emergence of the global financial market, the industrial shift from production to finance in the United States and its use of its competitive financial sector to maintain its dominant position, especially seigniorage position, in international society are the fundamental factors that urge neoliberal reforms and continue to drive the world towards neoliberalism. In order to make neoliberal reforms for the financial market practicable, domestic markets have been 'forced' to open and the roles of states have been modified to be compatible with the philosophy of international finance. International organizations, including the WTO, the IMF and the World Bank, play a surveillance role in maintaining the global market and its rules. Economically oriented institutions and organisations, including the WTO and NAFTA have significant influence on a nation-state's autonomy over their domestic economic affairs. Members of the WTO are required to adhere to WTO's rules and regulations as part of their membership, and most regional corporations start from regional political organizations and economic unification is prioritized. Therefore, neoliberalisation is largely driven by the process of financialisation. In the process of financialisation, it was necessary to adjust the roles of states and international organizations. These international changes caused by the neoliberal reforms for the

¹⁴² Harvery 2005, pp. 94-5, Balaam and Veseth, pp. 173-5.

¹⁴³ Balaam and Veseth, pp. 173-5.

¹⁴⁴ Stragne 1886, pp. 109-19 Stange 1998, p. 14-5.

financial market affected not only the economic sphere, but also political and social spheres in many countries. A great number of reforms occurred in the name of neoliberalism; Keynesian welfare-states were attacked to cut 'costly' public services; significant corporate and middle-class taxes were cut specifically; and labour unions were weakened. Market oriented free competition is encouraged, in a number of markets, including labour market, and therefore "a Darwinian order of market distribution" and its unequal result are legitimized.

Chapter 3: The Roles of Nationalism in Neoliberalisation

3.1. *Problems of Neoliberalisation*

3.1.1. Deterritorialisation and Glocalisation

As a result of neoliberalisation, there has been concern raised about the current trend of deterritorialisation, which has caused a shift in the traditional role the state.¹ Deterritorialisation is the geo-economic integration in which sub and super national economic spaces, such as “global cities, industrial districts, technopoles and offshore financial centers”, play an important role.² MNCs’ global strategies, including key factions of industrial, financial and service capital, coupled with global financial restructuring, have caused this deterritorialisation as well as the fact that the previous Keynesian welfare-state framework could not secure the MNCs’ competitive advantages.³ In other words, as Jessop argues, there has been a shift in power from the national state to a post-national order, although the state remains a pivotal institutional site and the main framework for political struggles.⁴ Robinson terms the internationalization of states as transnational states (TNSs). TNSs no longer play the role of previous states, which worked simply as a bargaining place for domestic interests or as a mediator adjusting domestic interests to the international environment. TNSs reorganize such traditional functions of the state by becoming involved in “supranational economic and political institutions”.⁵ The supranational economic and political institutions are both formal and informal institutions, including the IMF, the WTO, the Group of Eight (G-8) and the EU.⁶

Brenner calls this deterritorialisation glocalisation. In contrast to the national projects of the Keynesian welfare state in which industry, population and infrastructure were distributed equally inside a national boundary, glocalised states attempt to distinguish strategic urban and regional growth centres from others in terms of a political economy inside their national territory.⁷ This promotes not only uneven development in a nation-state, but also inequality or unfairness between transnationalized and non-transnationalized interest groups and regions. States more and more behave like the ‘agent’ of these supranational institutions and

¹ Brenner, p. 58, Sassen p. 166.

² Brenner, p. 58.

³ Henry Wai-chung Yeung, The limits to globalization theory: a geographic perspective on global economic change, *Economic geography*, 78/3, 1998, pp. 296-9.

⁴ Bob Jessop, *The Future of the Capitalist State*, (London, 2002), p. 212.

⁵ Robinson William I., *A Theory of Global Capitalism, Production, Class, and State in a Transnational World* (Maryland, 2004), p.100.

⁶ Robinson, p.100.

⁷ Neil Brenner, ‘Glocalization’ as a state spatial strategy: urban entrepreneurialism and the new politics of uneven development in western Europe”, in Jamie Peck and Henry Wai-chung Yeung ed., *Remaking the Global Economy* (London, Thousand Oaks, and New Delhi, 2003), p. 206.

transnationalized interests. However, interests among companies locating their production inside a nation-state are less represented by the state and are often hit by the effect of volatility fluctuation and required to spend a large amount of time and money to avoid the risks of fluctuating international financial market, specifically fluctuation of currency exchange.

3.1.2. Financialisation

The international free flow of capital after the 1970s has generated competition internationally and domestically between states, regions and cities, at least in OECD countries.⁸ In competition, neoliberalism plays a pivotal and principle role in creating rules by providing measurements for regional competitiveness, public policy, corporate performance and social productivity.⁹ These neoliberal rules are based on “value for money, the bottom line, flexibility, shareholder value, performance rating” and so forth.¹⁰

As a consequence of neoliberal reform, uneven geographical developments and social inequality have accelerated and widened between ‘global competitors’ and uncompetitive ones.¹¹ For instance, in the US and the UK, while the standard of living of manufacturing labour has sharply declined due to low economic growth in this sector and the cutback in the social expenditure of states since the 1980s, those in the financial sector and investors have gained a large fortune under the new wave of entrepreneurial financiers.¹² Moreover, the 90s economic booms in both countries did nothing to minimize the gap. On the contrary, the inequality was further widened.¹³ Under a high interest rate in these developed countries, the number of people in debt, especially in the lower strata of society, increases, while the upper section of society whose income and wealth is written in securities, such as shares, bonds or bills, enjoy high interest rates and exceptional growth in financial markets.¹⁴

Moreover, developed countries’ heavy reliance on financial capital (specifically the US) has aggravated the world debt problem.¹⁵ Internationally, developed countries which face a current account deficit, such as the US, UK and Australia, have piled up their national deficit in a form of either public or private deficit.¹⁶ In the international financial market, developing and undeveloped countries need to compete with these developed countries when raising funds. Therefore,

⁸ Harvey 2005, p. 87, Jamie Peck and Adam Tickell, neoliberal space, *Antipode* 34, 2002, p. 40.

⁹ Peck and Tickell, p. 40.

¹⁰ Peck and Tickell, p. 40.

¹¹ Harvey 2005, pp. 87-8.

¹² Harvey 2005, p. 90.

¹³ Harvey 2005, p. 90.

¹⁴ Harvey, pp. 50-2, Duménil and Lévy, pp. 13-4.

¹⁵ Pettifor, ch. 3.

¹⁶ Pettifor, ch. 3.

developing and undeveloped countries are required to borrow money from global financial markets at a much higher interest rate than developed countries do, and they are not able to wipe out their foreign debts with their exports, because of the fluctuating downturn of the prices of commodities.¹⁷ Eventually, this uneven development and social inequality has produced a volatile life among the majority of the population in developed and developing countries, including a high unemployment rate, a high suicide rate, and a widening income gap between urban and rural areas.¹⁸

These problems caused by neoliberalisation bring two related political questions. There are not only transnationalized societal actors in a nation-state, nor are transnationalized societal actors the majority. Why then are the implementation of neoliberal reforms legitimized and practiced in a nation-state? The second question is how can neoliberal reforms be continued when they bring about inequality or unfairness between transnationalized and non-transnationalized interest groups and regions as well as insecurity and problems? To answer these questions, we look to theories and arguments over the political role of nationalism.

3.2 The Role of Nationalism in Neoliberalisation

3.2.1. IPE and Economic Nationalism

According to Crane, analysis of the relationship between neoliberalisation and nationalism has been argued in terms of particular understandings of economic nationalism, using realist, liberal and Marxist approaches, provokes. In the realist approach, represented by Robert Gilpin, the central idea of economic nationalism is that “economic activities are and should be subordinate to the goal of state-building and the interests of the state”.¹⁹ In the realist view, states are placed in the situation of “the near-war of all against all” in international competition among states in terms of politics and economics.²⁰ Therefore, for leaders of states, the maximization of national wealth is an important “means of securing relative gains against competitors”.²¹ Placed in the state of a near-war of all against all, what economic nationalism is aimed at maximizing national wealth, because economic activities should contribute to achieving the goal of state-building and the interests of the states.

¹⁷ Pettifor, p. 111. Although in recent years the price of commodities, specifically oil prices, have been increasing in record pace, their increases are experienced as inflation in world scale. Therefore, for developing countries the situation fundamentally unchanged.

¹⁸ Harvey 2005, Peck and Tickell, Radhika Desai, Neoliberalism and cultural nationalism, in Plehwe, Walpen and Neunhöffer ed., *Neoliberal Hegemony: A Global Critique* (London and New York, 2006), pp. 230-5.

¹⁹ George T. Crane, *Economic Nationalism: Bringing the Nation Back In*, *Millennium: Journal of International Studies*, 1998, pp. 56-8, Gilpin 1987, p. 31.

²⁰ Crane 1998, p. 57.

²¹ Crane 1998, p. 56.

Although liberals agree with realists over the definition of economic nationalism, they do not see the maximization of national wealth as its aim and result.²² For example, according to Harry Johnson, economic nationalism led by states provides strong national identities, but in the meantime economic nationalism ruins ‘true’ national interests by wasteful, unjust and useless policies, like protectionism.²³

Thirdly and finally, Marxists argue economic nationalism in a quite different way from realists and liberals. Marxists regard economic nationalism as a part of the history of capital accumulation. Certain stages of capital accumulation may “tolerate, even encourage” state interventions.²⁴ According to Cox, different “forms of state” have been required in each stage of the historical development of capitalism, and he sees capitalism not as a release of the pure power of the market, but as one of the various forms of historical arrangements created by the interactions between political and economic phenomena.²⁵ Therefore, in Marxist arguments, economic nationalism is “neither an anomaly, as liberals would have it, nor a necessity, as in the realist view. It is a historically conditioned expression of capital”.²⁶

These arguments have two fundamental problems or limitations. Firstly, their theories treat state interests as almost a synonym for the interests of societal actors in general in a nation.²⁷ The concepts and criteria of a nation are closely interrelated with other concepts, namely ethnic groups and states in its definition. For instance, ethnic groups can share a number of important features with nations and ethnic groups have the potential to become a nation. Furthermore, a nation’s self-government apparatus is equivalent to a state’s, and “the state is likely to characterize their body politic as being a nation, for this implies political identity”.²⁸ In order to make these complex characteristics of a nation better understood, it is important to distinguish nations from states and ethnic groups. The main feature of a state is that it is an institutional entity and so, a possible definition of a state is “a set of autonomous institutions, differentiated from other institutions, possessing a legitimate monopoly of coercion and extraction in a given territory”.²⁹ On the other hand, nations are identified by subjective and objective features. Nations are “felt and lived in communities whose members share a homeland and culture”.³⁰ The concept of a

²² Crane 1998, pp. 58-60.

²³ Harry G. Johnson (ed.), *Economic Nationalism in Old and New State* (Chicago, 1967), Chapters 1 and 8 cited in Crane, p. 58.

²⁴ Crane 1998, p. 60.

²⁵ Crane 1998, p. 60.

²⁶ Crane 1998, pp. 60-1.

²⁷ Crane 1998, p. 64. Eric Helleiner, *Economic Nationalism as a Challenge to Economic Liberalism? Lessons from the 19th Century*, *International Studies Quarterly* 46, 2002, p. 309.

²⁸ Anthony D. Smith, *Nationalism* (Cambridge, 2001), p. 12.

²⁹ Smith 2001, p. 12.

³⁰ Smith 2001, p. 12.

nation converges on a type of community, thus a nation is different from a state. In addition, a nation is different from an ethnic community as well, although both share several of the same phenomena, including collective cultural identities.³¹ Therefore, a nation is not the same as a state and so, the interests of a nation can be different from state's interests, and inside the nation, interests are contested among different societal actors, including businesses and labour. Their definitions of economic nationalism ignore the differences between state and nation, consider nation and its societal actors synonymous with state and limit state's interests to governing production, exchange, consumption and investment. This is a problem, because they cannot capture and grasp how and what kind of nationalism occurs when the interests of societal actors change in neoliberalisation. Moreover, they cannot capture what the function of nationalism is in a nation-state where interests are contested, that is, they cannot explain how nationalism is used to deal with the different interests among societal actors and state.

The second limitation of their theories of economic nationalism is that economic nationalism is used interchangeably with mercantilism or protectionism.³² For example, Gilpin uses the term mercantilism as a synonym for economic nationalism and scholars of East Asian developmental states, like Stephan Haggard, also use economic nationalism interchangeably with mercantilism.³³ Moreover, Marxists, including Cox, also link economic nationalism to “neo-mercantilism, autarky, and other such ‘inward-looking’ manifestations of the imperative to accumulate capital”.³⁴ Their usage is problematic because as we will discuss later, nationalism is not like other isms, in terms of the fact that there is no fixed core idea to nationalism compared to other ideologies, therefore, it is inadequate to limit the term economic nationalism to certain ideologies such as mercantilism, protectionism or neo-mercantilism and autarky.

As a result of these limitations, the theories cannot explain role of nationalism in the current revival of economic liberalization among nation-states in the 1980s and 1990s.

3.2.2. Neoliberalisation as Economic Nationalism

Some scholars, like Helleiner, argue that nationalism and economic liberalization are not in conflict with each other. According to Helleiner, although Friedrich Hayek, who was “the central intellectual figure behind the current revival of economic liberalism”, is associated with individualistic and cosmopolitan ideologies

³¹ Smith 2001, p. 12.

³² Stephen Shulman, Nationalist Sources of International Economic Integration, *International Study Quarterly*, Vol. 44, No. 3. 2000, pp. 366-8. Crane, pp. 63-4, Helleiner, p. 309-11.

³³ Crane 1998, p. 64.

³⁴ Crane 1998, p. 63.

like his 19th century predecessors, his followers have mainly argued and suggested that neoliberal economic policies can contribute to the maximization of national interests, like a nation's GDP, its trade balance, employment rate and productive advantage.³⁵ As a result, neoliberal economic policies have been adopted in numerous countries as 'nationalist policies'.

In the contemporary nation-state, some societal actors and the state are transnationalized. For example, the emergence of the global financial market promoted internationalization of the flow of finance, and therefore banks, financial companies and institutions also have created global networks of their business. The production sector is no longer based in one country. Their production bases are globalised, and they cannot be treated as societal actors of a nation-state. Moreover, Robinson terms the internationalization of states as transnational states (TNSs), and TNSs no longer play the role of previous states, but instead become increasingly involved in "supranational economic and political institutions", such as the IMF, the WTO, the Group of Eight (G-8) and the EU, and increasingly acting like an 'agent' of these supranational institutions.³⁶ In this situation, a nation-state can take a neoliberal stance to secure their relative gains in global competition. Neoliberal theories can be used by transnational societal actors and states to provide a vision of an economic future of a nation-state.³⁷ Therefore, economic nationalism can be associated with a national consensus for neoliberal economic and structural reforms especially when a nation-state is in recession or economic crisis. Moreover, once neoliberal policies are adopted by a state, nationalism works in quite a different way from the theories of economic nationalism discussed above. As Goff and Desai argue, another type of nationalism, namely cultural nationalism, is implemented and used by states to maintain a state's social and political unity after neoliberalisation, because neoliberalisation often ruins the political and social unity of a nation.

3.2.3. New Theories and Their Evaluation

First group of new theories

New theories and arguments can be categorized into two groups. The theories and arguments in the first group resolve the problems seen in the traditional theories of economic nationalism and provide an explanation as to why a nation-state might use neoliberal policies as a means of defining and seeking the national interest and why this neoliberalisation can be supported by the people in a nation. Here I will discuss two arguments that neoliberalisation could be espoused as economic nationalism: these of Crane and Shulman. They argue that neoliberalisation can help

³⁵ Helleiner, p. 323.

³⁶ Robinson, p. 100.

³⁷ Robinson, p. 84.

promote the interests and goals of a nation, not only through improvements in the economy, but also by promoting the unity of a nation.

The first example is Crane's concept of the Imagined Economy. Inspired by Benedict Anderson's well known concept of Imagined Communities,³⁸ Crane identifies three different economic phases for the formation of a national identity, namely historical economic tribulations, economic successes and economic images. The first and second phases, economic tribulations, like the Great Depression in 1930s in the US and the Great Famine of the mid-nineteenth century in Ireland, and economic success, like Britain as 'the workshop of the world' and Japan's post-World War II economic 'miracle', are shared as a nation's memory of a common economic experience.³⁹ For economic images, Crane applied Anderson's community-centered view of the nation: "it [nation] is imagined as a community, because, regardless of the actual inequality and exploitation that may prevail in each, the nation is always conceived as a deep, horizontal comradeship".⁴⁰ According to Crane, whatever the actual experience, the narrative of economic life creates the unity of a nation, "We are united because we toil together in the same field, even if we are doing different jobs and earning different wages".⁴¹ Thus, nationalists often create their own narrative of economic life to unite people as a nation, and narratives are created from various ideologies, including tradition, liberalism and Marxism.⁴² As an example of a narrative created from liberalism, Crane mentions post-Maoist China, in which Deng Xiaoping "blamed Chinese weakness on specific Maoist policies and certain facets of Maoist ideology and went on to articulate new national possibilities: a 'reformed' China, one that gains from openness to global economic forces, from technologically sophisticated industry, and from rising standards of living".⁴³

When the relationship between nationalism and neoliberalisation is observed, Crane's explanation that historical economic tribulations, economic successes and economic images contribute to the formation of a national identity is very useful. As Crane explained, the narrative of economic life creates the unity of a nation and thus, nationalists often create their own narrative of economic life to unite people as a nation, using their favourite ideologies. His explanation can capture the mechanism of how neoliberal reform becomes national consensus by creating economic narrative of whole nation.

Stephen Shulman argues that in an age of increasing economic integration,

³⁸ George T. Crane, *Imagining the Economic Nation: Globalisation in China*, *New Political Economy*, Vol. 4, No. 2, 1999, p. 217.

³⁹ Crane 1999, pp. 216-7.

⁴⁰ Crane 1999, p. 217.

⁴¹ Crane 1999, p. 217.

⁴² Crane 1999, pp. 217-8.

⁴³ Crane 1998, p. 73.

neoliberalisation can be considered as one of the possible alternatives for nationalists to use as a policy to reach their fundamental goals, which are (in his view) promoting the autonomy of the state and the unity and identity of the nation.⁴⁴ Shulman adopts Smith's definition of nationalism as "an ideology seeking to establish or promote the unity, identity, and autonomy of a nation or potential nation", and argues that nationalists seek a way to promote economic autonomy while preserving and sometimes enhancing national unity and identity.⁴⁵ Shulman divides nations into two categories, namely a dominant nation (large or small possessing their own state) and a minority nation (nation without its own state), and shows how neoliberalisation can promote nationalists' interests in both dominant and minority nations in the current economic climate of globalization.⁴⁶ For instance, nationalists of dominant nations might seek the autonomy of their nations in two ways. First, nationalists of a nation with a strong economy will seek their nations' influence over other nations through neoliberalisation—the US is an example.⁴⁷ On the other hand, nationalists of a nation-state with a weaker economy will try to lessen the influence of the nation with a strong economy by promoting economic ties with other nation-states— an example is the EU.⁴⁸ For a minority nation in a nation-state, neoliberalisation also sometime can promote nationalists' interests. For example, neoliberalisation, by rolling back the state, possibly weakens the influence of the dominant nation over their economy, and also weakens the dominant nation's cultural assimilation policies of creating unity and identity through the state (one of the important purposes of economic protectionism is to protect the national culture).⁴⁹

One of the problems in Shulman's explanations is that he does not consider differences in interests within a nation, including dominant and minority nations. Another problem is Shulman uses Smith's definition to define nationalism, and so he limits nationalism to nationalists' ideological movement. Moreover, Shulman uses the term of nationalists unclearly; therefore, it is unclear to see who nationalists are, whether or not they are intermediate associations, specifically politicians. In Shulman's explanation adopting neoliberal policies is treated as the will of the people in a nation represented by nationalists. However, he ignores the possibility that neoliberalisation is often adopted by non-nationalists as a result of bargaining among societal actors whose interests are contested in a nation-state.

Second group of new Theories

⁴⁴ Shulman 2000.

⁴⁵ Smith, *National Identity* (London, 1991), p. 73, Shulman 2000.

⁴⁶ Shulman 2000, pp. 369-373.

⁴⁷ Shulman 2000, pp. 369-70.

⁴⁸ Shulman 2000, pp. 369-70.

⁴⁹ Shulman 2000, pp. 369-373.

Goff and Desai provide a different approach to neoliberalisation and nationalism. They argue that a different form of nationalism emerged in a context of globalization. These arguments provide an explanation for the movements of reinforcement of national unity. They explain that when states face a need for economic liberalization (whether inevitable or not) and they actually liberalize their economy, a form of cultural nationalism is used or implemented by state actors to maintain their sovereignty and political power. According to Patricia Goff, in the age of globalisation, states are required to reinforce their national identity to maintain their political community, because “permeable territorial borders” are no longer able to keep out the flows from outside, including goods, people, ideas and capital, and the flows tend to work to deteriorate the social and political unity of a nation.⁵⁰ Although not all states perfectly fit this model, Goff uses Biersteker and Weber’s framework for a state, and argues that the sovereignty of a state is based not only on a specific territory that is governed, but also the invisible borders of “a political community or a nation, the members of which share a common national identity” which “has the effect of demarcating ‘inside’ and ‘outside’ at the conceptual level”.⁵¹ Thus, in the process of neoliberalisation, in order to assert its sovereignty, a state needs to reconstruct an ‘invisible border’, and collective identity, like sharing a common culture and idioms.⁵² In her case studies, Goff shows how Canada and France in their negotiations with NAFTA and GATT strongly insisted on the exclusion of culture and audiovisual industries, such as film, television, radio and books, from neoliberalisation to retain their ‘invisible border’.

Unlike those scholars mentioned above who argue about liberalisation in general, Desai provides a direct argument for the relationship between nationalism and neoliberalism. Desai focuses on internal class divisions and the volatility of life in a state characterised by neoliberalisation and the free flow of international capital, and argues that cultural nationalism is used by the state to compensate for these class divisions and volatility of life. According to Desai, the volatility and uncertainty of life yield a space where cultural nationalism comes in, and only cultural nationalism can provide the “mask and bridge” for the divides between ordinary people and government or economically dominant classes inside neoliberal nation-states.⁵³ Cultural nationalism promotes cultural importance and the independent spirit of a nation, but in fact, states use it to mask the fact that “its civic-egalitarian welfare state

⁵⁰ Patricia M. Goff, *Invisible Borders: Economic Liberalization and National Identity*, *International Studies Quarterly*, Vol. 44, No. 4, 2000, p. 539.

⁵¹ Goff, p. 538, Thomas J. Biersteker and Cynthia Weber, *The Social Construction of State Sovereignty*, in Thomas J. Biersteker and Cynthia Weber ed, *State Sovereignty as Social Construct* (Cambridge, 1996).

⁵² Goff, pp. 538-40.

⁵³ Desai, p. 231.

policies are abandoned” and also to accelerate the adoption of neoliberal economic policies in the developmentalist manner.⁵⁴ Cultural nationalism can also work to legitimize the activities of neoliberal nation-states and to further the privileged access of the economically dominant classes to the benefits of neoliberal reforms. This form of nationalism is sold to the nation as absolutely essential if the nation is to survive economically in the prevailing global market.⁵⁵ The ideology of neoliberalism itself cannot play the role of providing the “mask and bridge” for the divides in society, because it destabilizes life at the lower strata and its outcomes are also a potential political threat to the upper strata.⁵⁶

These new theories and arguments are useful and helpful to understand and explain a whole process of neoliberalisation. That is, to implement neoliberal reforms, economic nationalism would be used, and to keep neoliberalisation going, cultural nationalism would be used; therefore, one would expect that in neoliberalisation, the two different types of nationalism can be seen.

3.3. Defining Nationalism

From the new theories and arguments over nationalism in neoliberalisation, there are some key points.

1. The narrative of economic life creates the unity of a nation and thus, nationalists often create their own narrative of economic life to unite people as a nation, using their favourite ideologies.
 - a. Nationalists seek a way to promote economic ‘autonomy’ while preserving and sometimes enhancing national unity and identity
2. The movements of reinforcement of national unity can be seen in neoliberalisation.
 - a. In the process of neoliberalisation, in order to assert its sovereignty, a state needs to reconstruct an ‘invisible border’ and collective identity, because “permeable territorial borders” are no longer able to keep out the flows from outside and the flows tend to work to deteriorate the social and political unity of a nation.
3. Cultural nationalism can be seen in neoliberalisation.
 - a. Only cultural nationalism can provide the “mask and bridge” for the divides between ordinary people and government or economically dominant classes inside neoliberal nation-states.
 - b. Cultural nationalism promotes cultural importance and the independent spirit of a nation.

All of these key points focus on the unity of a nation. However, it is not clear how nationalism provides unity to the people of a nation. To understand what nationalism is more clearly, let us discuss aspects of nationalism that provide unity of the people.

⁵⁴ Desai, p. 231.

⁵⁵ Desai, p. 231.

⁵⁶ Desai, p. 231.

3.3.1. Sentiment Underpins Nationalism

Guibernau argues that the national identity, that is, the individual's emotional attachment to a nation, provides the sentiment, which enables the people of a nation to unite. National identity provides individuals the framework to interact with others inside and outside their nation, their self-identification with their nation and its members and separation from others.⁵⁷ National identity of the members of a nation is constructed and experienced through "community of culture and unity of meaning".⁵⁸ Rituals, including civil ceremonies, play an important role in the creation of national identity.⁵⁹ Common features of a nation, including culture, history and collective memories, like war and economic success of a nation, work as important elements to provide individuals' meanings of the world.⁶⁰ Therefore, unlike the other forms of ideology, including liberalism and Marxism, which "require the indoctrination of their followers", nationalism rests on individuals' "emotional attachment to one's land and culture," and makes it possible to unite the people of a nation.⁶¹ In other words, individuals' emotional attachment to a nation is underlaid as the fundamental element that gives rise to nationalism and helps unification of the people in a nation. Moreover, as Crane argues, to recall the emotional sentiments attached to the nation among the people so that the people are united, a narrative is created and plays an important role in the unification of the people.⁶²

3.3.2. Ideology of Nationalism

If, as Crane explains, a unifying narrative is created with particular ideologies, ideologies play an important role in nationalism. Nationalism includes ideology, and this is the second important aspect of nationalism. The traditional arguments over the ideology of nationalism focused on the comparisons between 'Western' civic or political nationalism and 'Eastern' cultural or ethnic nationalism.⁶³ The ideology of 'Western' nationalism is said to be characterized by its aspiration of 'liberalism' in which people should not be loyal to king and emperors, but to their nation for civic-oriented self determination, "both in the sense of democratic self-rule (or at least republican constitution-making) and in the sense of autonomy from the domination of other nations".⁶⁴ On the other hand the 'Eastern' nationalism is often described as a

⁵⁷ Guibernau Montserrat, *Nationalisms* (Cambridge, 1996), p. 73.

⁵⁸ Guibernau, p. 73.

⁵⁹ Guibernau, p. 73.

⁶⁰ Guibernau, p. 73.

⁶¹ Guibernau, p. 76.

⁶² Crain 1998, p. 73.

⁶³ Hans Kohn, *Nationalism, its meaning and history* (New York, 1967), Craig Calhoun, *NATIONALISM* (Minneapolis, 1997), pp. 87-9.

⁶⁴ Calhoun, p. 87.

‘populist’ movement, based on the ideology that some cultural or ethnic criteria, including language and history, are strongly emphasized and given priority, rather than giving priority to political citizenship of ‘Western’ nationalism.⁶⁵ France as an example of ‘Western’ nationalism and Germany as an example of ‘Eastern’ nationalism are often cited in scholars’ arguments over nationalism.⁶⁶

However, as Calhoun shows by demonstrating the recent ‘Eastern’ type of nationalism in France, and ‘Western’ type of nationalism in Germany, the framework of ‘Western’ and ‘Eastern’ nationalisms is no longer useful to characterise the ideology of nationalism at least in developed countries.⁶⁷ Moreover, today it is a common understanding among the scholars of nationalism that contemporary nationalism is not like other -isms in terms of the fact that there is no fixed core idea to nationalism compared to other ideologies, like socialism and liberalism. For example, A. D. Smith points to the wide variety of ideologies associated with nationalism. Not only has nationalist ideology (separatists and integrationist) applied to creation of an independent nation, but it has also been associated with a variety of ideologies, from liberal, fascist, even communist, to cultural and religious based ideologies (like conservative and Islamic) and political and economic based ideologies (like protectionist).⁶⁸ Therefore, it is clear that one must observe the ideology of nationalism case by case when nationalism is observed, because there is no fixed core idea to nationalism and the framework of Western and Eastern nationalism has become less and less sufficient in the contemporary era. In the case of economic nationalism discussed among the new theories and arguments, the ideology is neoliberalism and for cultural nationalism, the ideology is one of cultural importance and the importance of preservation of its own culture and identity. This ideology is used to create a narrative to unite the people.

3.3.3. Nationalism as the Will of the People

The third aspect of nationalism discussed here is the notion that the will of the people legitimizes a state. Nationalism works to express the will of the people. When the ideology in nationalism stimulates and reinforces the sentiments attached to the nation among the people, the ideology is expressed as the will of the people. The emergence of popular sovereignty in the American Revolution in 1776 and the French

⁶⁵ Calhoun, p. 89.

⁶⁶ Calhoun, p. 89.

⁶⁷ Calhoun, pp. 89-91, p. 139 In the Japanese case the origins of a ‘civic’ type of ideology can be seen in the democracy movement in the Taisho era (Taisho democracy), and especially after the WWII liberal democracy was introduced by the US and the civic idea became part of Japan’s national identity.⁶⁷ Therefore it is possible to say that the ideological difference between ‘Western’ and ‘Eastern’ nationalism is getting closer in developed countries, including Japan. See, Shōichi Watanabe, *The Great Meiji, and the Paradox, (meijitaitoitou ikita paradocusu), in Meijitenō to sonojidai* (Tokyo, 2002).

⁶⁸ John Hutchinson and Anthony Smith D., *Nationalism* (Oxford, 1994), p. 14.

Revolution in 1789 brought radical changes in the legitimacy of political rule, which was previously dominated by reasons such as “God’s will, royal blood or superior physical strength”.⁶⁹ The idea that the ideal legitimacy does not come from above, but comes from the ‘ruled’ was spread through the Napoleonic invasions.⁷⁰ “It is precisely from this period [eighteenth century] onwards that the nation-state becomes recognized as the unit of political power par excellence, its form being taken as a model not only in Western Europe, but also in the rest of the world.”⁷¹

One of the main features of the present nation-state system is that states are (at least regarded as) an apparatus to express the people’s will.⁷² Nowadays not only governments who come to power through free elections claim their legitimacy as so, but also “government elected by more dubious means and dictatorships also claim to be the expression of the will of the people they rule”.⁷³ Therefore, in present nation-states it is important for states to create unification or congruence with the people. Nationalism plays an important role in this.

3.3.4. Nationalism as Movement

Nationalism can be observed as national movements. National movements are often argued in terms of political and cultural autonomy. For instance, Melucci points out national movements raise two fundamental questions of contemporary complex societies:

They raise questions about the need for new rights for all members of the community, particularly the right to be different; and they claim the right to autonomy, to control a specific living space (which in this case is also geographic territory).⁷⁴

As Andreas Pickel shows, national movements in terms of politics, culture and economy are generated by various people and groups of a nation through expressing ideas, taking political actions, and forming a national consensus around economic and political policies to build the future of a nation.⁷⁵

3.3.5. Definition of Nationalism

The working definition of nationalism used in this thesis modifies Guibernau’s definition⁷⁶ to produce the followings:

⁶⁹ Guibernau, p. 52.

⁷⁰ Guibernau, p. 52.

⁷¹ Guibernau, p. 57.

⁷² Guibernau, p. 69.

⁷³ Guibernau, p. 69.

⁷⁴ Alberto Melucci, *Nomads of the Present* (London, 1989), p. 92.

⁷⁵ Andreas Pickel, *False Oppositions: Reconceptualizing Economic Nationalism in a Global World*, in Eric Helleiner and Anderse Pickel ed, *Economic Nationalism in A Globalizing World* (Ithaca, 2005), pp. 1-20.

⁷⁶ Guibernau defines nationalism as follows. Nationalism is the sentiment of belonging to a

Nationalism is an ideology and movement generated with the sentiment of belonging to a nation, in which members identify with the nation's peculiar features, including a set of symbols, beliefs, way of life and its economy, and the will of the people to decide upon their common political, economic and cultural destiny.

From this definition of nationalism and the arguments of new theories of economic nationalism presented above, the following working conceptualisations of economic and cultural nationalism under neoliberalisation emerge.

Economic Nationalism

Economic nationalism is an ideology and movement, which is strongly coherent with ideologies of neoliberalism, including market liberalisation, deregulation and individual responsibility. Economic nationalism recalls and reinforces the sentiment of belonging to a nation by providing a way for members to identify with the nation's peculiar economic features and situation. Economic nationalism also creates a narrative of a future of the nation, and promotes implementing neoliberal reforms as the will of the people.

Cultural Nationalism

Cultural nationalism is an ideology and movement, which reinforces the sentiment of belonging to a nation, in which members identify with the nation's peculiar culture, set of symbols, beliefs and history, and the will of the people to decide upon their common cultural and political destiny. In the process of neoliberalisation, cultural nationalism works to maintain the invisible borders, while the role of the actual territorial borders is receding. Cultural nationalism is also used to legitimize the activities of neoliberal nation-states. It works to mask the social problems created by the implementation of neoliberal reforms, and to 'glue' social differences created by the implementation of neoliberal reforms.

3.4. Conclusion and Hypothesis

3.4.1. Conclusion

As discussed above, contemporary nationalism is not like other -isms in terms of the fact that there is no fixed core idea to nationalism, therefore different types of nationalism that have different ideologies can co-exist. In neoliberalisation, there can be two types of nationalism, namely economic nationalism and cultural nationalism,

community whose members identify with a set of symbols, beliefs and ways of life, and have the will to decide upon their common political destiny. Guibernau, p. 47.

which work to unite the people. The important reason why nationalism can unite the people is that there are sentiments attached to a nation among the people, and when the ideology/idea of nationalism stimulates and encourages the sentiments attached to a nation, nationalism appears as the expression of the will of the people. In this regard, economic nationalism can unite the people in a nation-state in a way that people feel neoliberal reforms are necessary for the future of the nation, and cultural nationalism can unite the people by reinforcing and emphasizing the importance of their own culture and self-responsibility. Since nationalism is expressed as the will of the people, nationalism can provide the legitimizing goal and “glue” that can counteract the increase in social insecurity and inequality generated by neoliberalisation, because the sentiments brought about by economic and cultural nationalism are strongly connected with the will of the people.

3.4.2. Hypothesis

The emergence of the global financial market promoted internationalization of the flow of finance that led banks, financial companies and institutions to create global networks of their business, and led the production sector to be internationalized. This creates a situation, in which neoliberal reforms are strongly in the interests of these transnationalized societal actors. However, in order to legitimize the implementation of neoliberal reforms as political and economic policies, the will of the people should correspond with neoliberal reforms. In other words, a national consensus for neoliberal economic and structural reforms should be formed. For this necessity, economic and cultural nationalism will be used. Through economic nationalism, individuals will be persuaded that neoliberal reforms should be taken for their national economic growth, while cultural nationalism will “mask and bridge” the divides between ordinary people and government or economically dominant classes inside neoliberal nation-states to maintain a state’s social and political unity after neoliberalisation, because neoliberalisation erodes the former bases of political and social unity of a nation.

Chapter 4: Case Study of Japan: Its Neoliberal Reform

4.1. Roll-Back Neoliberalisation in Relation to Pre-neoliberal Economic System

4.1.1. The Performance of the 1940 system up to the Neoliberal Reform in the 1980s

The term post-war in this thesis indicates the period of time from 1945 until the 1980s when the neoliberal reforms started. In this period, Japan experienced rapid economic growth, which was largely due to the role played by a rather unique Japanese economic system. How strong the system was can be seen in history. The overall performance of the post-war Japanese economic system was impressive average of 6 % annual GNP growth from 1949 to the late 1980s, while over the same period in both Britain and the US their GNP growth averaged less than 3 %.¹

Although Japan was suffering from a deficit in its balance of payments in 1960, Japan's GNP was already the fifth largest in the world. Its balance of payments turned into a surplus in 1965. Japan's GNP became the second largest in the world by the end of the decade, second only to the US.² However, in the 1970s, the so-called 'Nixon shock' (the end of Bretton Woods fixed exchange rate), the revaluation of the yen-dollar exchange rate, and the following two oil-shocks hit Japan's exports hard.³ As a result, Japan's production levels did not recover to the same level they were in 1973 until 1978, and also in 1979 Japan experienced a deficit in its balance of payments for the first time since Japan recorded its surplus in 1965.⁴ The price of the yen increased continuously from 308 yen to one US dollar in 1971 to 120 to one US dollar in early 1988.⁵ Despite this fact, Japan's economic growth rate was still higher than those of other developed countries in the world, and "Japan's onward march to economic superpower status seemed unstoppable".⁶

Japan's post-war economic performance is often described as a 'miracle'. Although the economic system was the single most important reason for Japan's rapid economic growth, a number of scholars point out other important features, including

1 Werner 2003, pp. 26-7.

2 Bailey, p. 90.

3 John W. Dower, Peace and Democracy in Two systems, in Gordon Andrew eds, Postwar Japan as History (Berkeley, 1993), p. 28.

4 Dower, p. 28.

5 Bailey, p. 122.

6 Bailey, p. 122.

quality control (QC) introduced by General Headquarters (GHQ),⁷ massive US aid, Japan's developmental aid to Southeast Asia to promote market relations⁸ and the US's procurements and expenditure during both the Korean and the Vietnam War.⁹ Membership in General Agreement on Tariffs and Trade (GATT) and the Organization for Economic Cooperation and Development (OECD) are also possibly key reasons for Japan's post-war economic success, because its membership in both organizations assured Japan of access to the most advanced markets.¹⁰ Without the backing of the US, Japan could not gain membership, because GATT, for instance, excluded countries that might sell their products in a way perceived as dumping while at the same time protecting their own markets, and post-war Japan was exactly such a country that should have been excluded from its membership.¹¹ European countries, especially France, opposed Japanese membership; however, because of the Cold War the US placed a priority on politics, and the US supported Japan's membership by using its dominant position in GATT.¹²

Through its membership in GATT and the OECD, the world market was now open for Japan and its "kamikaze-like market share expansion behaviour".¹³ Domestically Japanese bureaucrats and association leaders prevented Japanese companies from over-competition, but in the world market unfortunately there was not such a system that prevented companies from over-competition in terms of price.¹⁴ Washington was frightened of piling up a trade imbalance with Japan (the US trade deficit with Japan increased from \$1.69 billion in 1974 to nearly \$10.5 billion by the end of the 1970s) and so implemented import restrictions and duties on several Japanese products, including light trucks and colour television sets, but it was too late to prevent a further 'invasion' of Japanese exports.¹⁵ Due to the absence of a system that could prevent companies from over-competition in the world market, Japan's economy ignored profits and sought only the expansion of its market share. As a consequence, profit oriented Western companies were soon eliminated from the market.¹⁶ Japan's "militarized and mobilized" exports soon wiped out the consumer electronic industry in

⁷ William K. Tabb, *The Postwar Japanese System: Cultural economy and economic transformation* (New York, 1995), p. 90.

⁸ Michael Schaller, *The American occupation of Japan: the origins of the Cold War in Asia* (New York, 1985), p.114, Bailey, p.38.

⁹ Dower, p.13, Bailey, p.67.

¹⁰ Werner 2003, pp. 30-3.

¹¹ Werner 2003, p. 33.

¹² Werner 2003, p. 33.

¹³ Werner 2003, p. 33.

¹⁴ Werner 2003, p. 33.

¹⁵ Bailey, p. 144.

¹⁶ Werner 2003, p.33.

both Europe and the U.S., and in these countries the unemployment rate increased.¹⁷ By the end of the 1980s Japan's global account surplus reached over \$80 billion, while in the mean time the U.S. became the world's largest debtor, and the U.S.'s global deficit reached just over \$160 billion (\$59 billion from trade with Japan).¹⁸ Moreover, Japan's GNP per capita also surpassed the US's, and reached \$19,600 in 1987.¹⁹

While Japanese exports were dominating the world market, U.S. economists were very much confused by Japan's behaviour, because Japan did not seek to maximize profit even though it achieved a monopoly in a number of products.²⁰ "Analysts still failed to see its intrinsically different organizational structure and dynamics as a scale-maximization machine. Profits were irrelevant for management".²¹ This is because, although Japan was categorised as a capitalist country, the post-war system was very much different from either the liberal or social-democratic capitalism seen in the US and the European countries. Thus, before evaluating Japan's neoliberal reforms, it is important to discuss the post-war Japanese economic system.

4.1.2. Post-War Japanese Economic System and its Origin

The post-war Japanese economic system can be explained in various ways using different frameworks. For example, it has been explained as a developmental state, a catching up economy or Japan Inc. In many studies of the post-war Japanese economic system, a number of scholars have argued that the characteristic features of this system emerged from Japan's 'unique' culture and history, however, in recent studies this theory has been disputed by other scholars, including Noguchi, Sakakibara and Werner. They maintain that the Japanese economic system was actually created during the war and survived in the post-war period without any fundamental reforms until the end of 1990s. Therefore, it is necessary for this thesis to clarify the connection between the wartime and the post-war Japanese economic system in order to have a clearer picture of what the post-war Japanese economic system was. This will be important in understanding how the Japanese economic system changed because of neoliberalisation. It will also be important when we consider possible reasons as to why Japan reacted differently from other countries towards economic globalization, especially financial globalisation. In the following section, first of all, the pre-war Japanese economic system, the origin of the post-war Japanese system and the reasons why it emerged are

¹⁷ Werner 2003, p.33.

¹⁸ Kent E. Calder, *Crisis and compensation: public policy and political stability in Japan 1949-1986* (Princeton, 1988), p.120.

¹⁹ W G. Beasley, *The rise of modern Japan* (New York, 1990), p. 259.

²⁰ Werner 2005, p.33.

²¹ Werner 2005, p.33.

briefly discussed, and secondly how the war-time system was modified or strengthened in the post-war period is evaluated.

Recently, a number of scholars have found that the pre-war Japanese economic system was similar to the present day American liberal economic system.²² For example, in the pre-war Japanese economic system, more than fifty percent of corporations' financial needs were met directly through the stock market, and consequently the ratio of the total value of listed stocks to GNP was much higher than the ratio during the 'economic miracle' in the post-war period. As well as this, the influence of shareholders was strong, and corporations were required to pay high dividends, therefore, management tended to seek more short-term profits. For instance, in the 1920s and the early 1930s, according to Werner, among the leading Japanese corporations, two-thirds of their profit went to pay dividends, 6 percent of the profit was paid to their directors as bonuses, and only 25 percent of the profit was kept in reserve.

Japan's pre-war economy was first changed by Japanese reform bureaucrats during the 1930s, and then this modified economic system was strengthened by the same bureaucrats during the war in the 1940s.²³ The original aim of the system's modification was to overcome the recession which followed the Great Depression, but after the Manchurian incident (Japan's invasion into Manchuria in 1931) the system was strengthened for military purposes to precede the war. Then, although the war ended in 1945 with Japan's heavy defeat, the wartime economic system continued to exist.

One of the most important reasons for the survival of the wartime Japanese economic system was the change in US political policy. The main goal of U.S. occupation shifted from its original demilitarisation and democratisation of Japan to Japanese economic recovery and rearmament.²⁴ After the original market oriented liberal economic reform was reversed, the US's anti-communist containment policy was implemented to strengthen Japan's economy as quickly as possible. As a result, the US implemented Japan's wartime planned economy, because they thought the 'visible hand' of the government would be useful to accelerate Japanese economic growth.²⁵ As a result of the change in US policy, people who played essential roles in the wartime Japanese economic system gained positions that could control the economic system in the post-war period. Furthermore, there is a strong structural connection between the

²² Yukio Noguchi, *The 1940 System: Japan under the Wartime Economy*, *The American Economic Review*, Vol. 88, No. 2, May, 1998, pp. 404-7, Tetuji Okazaki, *From Wartime Controls to Postwar Recovery*, in Frank Gibney ed., *Unlocking the Bureaucrat's Kingdom* (Washington, D.C, 1998).

²³ Werner 2003, ch. 2, Noguchi 1998, Noguchi Yukio, *A plan for Japan's economic reform* (Nihonkeizai kaizouron) (Tokyo, 2005), pp. 31-45.

²⁴ Bailey, p. 37, Werner 2003, p. 24 Dower, p. 4.

²⁵ Werner 2003, p. 24.

wartime and the post-war Japanese economic system.²⁶ Central wartime legislation was also maintained in the post war era by especially the MITI (Ministry of International Trade and Industry) and the MoF (Ministry of Finance).²⁷ The wartime Temporary Funds Adjustment Law of 1937 and the Ordinance of Funds Operation of Banks of 1940 continued to exist. More importantly, the Bank of Japan Law of 1942 did not fundamentally change until April 1998.²⁸ The Foreign Exchange and Foreign Trade Control Law of 1949 was a renamed version of the Capital Flight Prevention Law of 1932.²⁹ In this regard, it is clear to see the structural connections, including laws, between the wartime and the post-war Japanese economic system. Thus, Noguchi named the post-war Japanese economic system “the 1940 System” as it was regarded as growth oriented rather than a system to maximise profits.³⁰ In the system, every economic activity, including governmental regulation, financial system, industrial structures and labour relations inside firms, was organized to maximise growth.³¹

4.1.3. The five distinctive features of the post-war economy in Japan

The basic features of the post-war Japanese economic system were:

1. The financial system: under the corporation of governmental authorities controlling credit creation through bank loans, and the selecting and organization of priority industries;
2. The influence of the shareholders: the influence of shareholders on corporate decisions were weak; In the post-war Japanese economic system, 43 percent of the profits were paid out as dividends, only 2 percent were for directors’ bonuses, and over 55 percent of profits were used for reinvestment between 1966 and 1970.³²
3. Business culture: an exclusive business culture and a tripartite (business, politician and bureaucrats) corporation in the economy;
4. Its employment practices: specifically lifetime-employment, the seniority wage, and in-house labour unions, which were typically observed in large organizations;
5. The taxation system: income and corporate tax were the main sources of revenue, and a strong central government allocated and distributed the tax revenues. These are the typical features of the post-war Japanese economic system, which was

²⁶ Werner 2003, p. 24, Chalmers A. Johnson, MITI and the Japanese miracle: the growth of industrial policy (Stanford, 1982), p. 41, John Dower, Japan in war and peace: selected essays (New York, 1993b), p. 24. Bailey, p. 60.

²⁷ Werner 2003, p. 24.

²⁸ Werner 2003, p. 26, Johnson 1982, p. 136.

²⁹ Werner 2003, p. 26.

³⁰ Noguchi 1998.

³¹ Noguchi 1998, Werner 2003, ch. 2.

³² Werner 2003, p. 30.

strongly connected with the wartime economic system.

The Financial System

The central and single most important feature of the post-war Japanese economic system is the peculiar financial system which was set up by Japanese wartime bureaucrats. In Japan, reform bureaucrats learned the Reichsbank's methods of controlling creation of credit and allocating purchasing power to maximise economic recovery.³³

In order for the Japanese economy to recover from the devastation caused by the war, a fundamental problem that Japan faced was the shortage of money in the country. In 1953, 8 years after the end of World War II, the total financial assets among the Japanese non-financial sectors were only 3 percent of "the corresponding figure for the United States".³⁴ Although the ratio of the total financial assets recovered to 50 percent, existing commercial banks did not have strength to provide long-term credits, therefore, special financial structure and institutions were necessary to aid economic recovery.³⁵ To solve this problem, the same financial strategies used during the war, that is, credit control and allocation with strong governmental intervention and high savings, were implemented to encourage investment for recovery.³⁶

Until the late 1990s the wartime financial system, namely credit controls and banks' lending, remained a central feature of Japanese post-war economic system. Firstly, wartime financial legislations backing up the wartime financial system remained up to the 1990s. The 1942 Bank of Japan Law remained until 1997 without any fundamental amendment; Foreign Exchange and Foreign Trade Control Law remained until the Big Bang reform in the late 1990s and it prevented international capital flow into Japanese markets.³⁷ The post-war legislation also strengthened the wartime financial system. For instance, the Banking Law "established powerful surveillance machinery and leadership power over financial institutions", and the establishment of strategic financial organisations, like the Industrial Bank of Japan and the Japanese Development Bank, strengthened the bank-centred financial system in the post-war period.³⁸

Moreover, although the wartime mobilization laws, which were strong legal

³³ Werner 2003, p. 30.

³⁴ Tabb, p. 103.

³⁵ Tabb, p. 103.

³⁶ Werner 2003, p. 55.

³⁷ Sakakibara, Eisuke, and Yukio Noguchi, Dissecting the Ministry of Finance-Bank of Japan dynasty, Japan Echo, vol. IV, no. 4, August 1977, p. 113.

³⁸ Sakakibara and Noguchi, p. 113.

requirements for the private sector to follow the bureaucracy “with extremely heavy penalties for non-compliance”, were eliminated after the war, thanks to the vagueness of the wartime legislations mentioned above, bureaucracy still had strong influence over the private sector through issuing “administrative orders or notifications (tsutatsu), similar to the wartime imperial decrees issued by the bureaucracy”.³⁹ There was no chance for the private sector to resist or argue with the government. Through the credit control and allocation, banks were totally dependent on the bureaucracy in the same way that companies relied on bank loans for their fundraising.⁴⁰

The newly created purchasing power was allocated in the same way as in wartime by the Bank of Japan (BoJ).⁴¹ The BoJ first decided by how much they would increase the total amount of loans, and then the increase was allocated to “individual banks as loan quotas” from large city banks to smaller ones.⁴² In the mean time, banks were asked to hand in their lending plans, and every month banks were obliged to report their lending in details, showing the names of large borrowers (their reports were handed in to headquarters or their closest branches of BoJ).⁴³ “The BoJ then ‘adjusted’ the lending plans to fit its credit allocation plans”.⁴⁴ Finally, bank officials visited the BoJ to ask by how much they should increase their loan quota.⁴⁵ Since BoJ used the teller window for this procedure it was called ‘window guidance’ (madoguchi shido).⁴⁶

During the post-war period the categories of A, B and C for industries were maintained; instead of munitions industry, producers of export goods (including industrial and consumer goods) were categorised as group A.⁴⁷ Although the difference between group A and group B was blurred by 1955, the categories of industry fundamentally remained throughout the post-war era.⁴⁸ Industry of category A was decided by MITI’s suggestion, and the industry was shifted from “first, textiles, then shipbuilding and steel, and later automobiles and electronics”, and these industries had benefits from allocation of the purchasing power.⁴⁹ Moreover, “thanks to the continued foreign exchange controls, foreign currency could then be allocated for obtaining necessary imports – raw material and other inputs”.⁵⁰

³⁹ Werner 2003, p. 56.

⁴⁰ Werner 2003, p. 56.

⁴¹ Werner 2003, p. 63.

⁴² Werner 2003, p. 63.

⁴³ Werner 2003, p. 63.

⁴⁴ Werner 2003, p. 63.

⁴⁵ Werner 2003, p. 63. Sakakibara and Noguchi, p. 114.

⁴⁶ Sakakibara and Noguchi, p. 114.

⁴⁷ Werner 2003, p. 56.

⁴⁸ Werner 2003, p. 56.

⁴⁹ Werner 2003, p. 63.

⁵⁰ Werner 2003, p. 63.

The Ministry of Finance regulated and maintained artificially the low interest rate and the hierarchically organized banking sector. The low interest rate of deposits and lending stimulated the demand of bank loans, and simultaneously by doing so it was important for banks “to ration the credit market and select among potential loan applicants those they prefer”.⁵¹ In order to maintain the low deposit interest rate, other financial institutions were strictly regulated. For instance, interest rates of other financial market were kept low and only large corporations were allowed to raise funds from issuing corporate bonds.⁵² Moreover, under the Foreign Exchange and Foreign Trade Control Law, the domestic financial market was closed from the world, and there was no possibility of outward capital flight from Japan and corporations’ fundraising in overseas markets.⁵³

Since under the weak influence of shareholders, banks were run by managers to compete in the market-share expansion with dumping of their products, banks were organized in the hierarchical manner in order to prevent excess competition. The ranking of banks was not changed except in the cases of mergers.⁵⁴ The top of the hierarchy of banks was dominated by long-term-credit banks, which were allowed to “issue corporate bonds to raise low-cost long-term sources of funds, while other banks could not”.⁵⁵ City banks were also located at the top of the hierarchy, and they were the first priority of the BoJ’s allocation of the loan quotas.⁵⁶ Smaller banks, including local banks, mutual savings, loan banks and credit associations, were located in the lower strata of the hierarchy and they did not play any central roles in credit allocation of the BoJ, but they usually supplied their surplus funds to city banks “via the inter-bank market, such as call loan market”.⁵⁷ Then inside banks quota was allocated their nationwide branches, in which “they were further divided and allocated to thousands of individual loan officers”.⁵⁸

Moreover, in order to maintain the hierarchical financial ‘cartel’, the Ministry of Finance played the central role of supervision. No banks were allowed to fail (a bank was often merged with other bank instead) and large banks were required to cooperate

⁵¹ Werner 2003, p. 46.

⁵² Yoshinori Shimizu, Convoy Regulation, Bank Management, and the Financial Crisis in Japan, in Ryoichi Mikitani and Adam S. Posen ed., *Japan’s Financial Crisis and Its Parallels to U.S. Experience* (Washington DC, 2000), p. 58.

⁵³ Sakakibara and Noguchi, p. 117.

⁵⁴ Werner 2003, p. 63.

⁵⁵ On the other hand, long-term-credit banks were not allowed to take deposit accounts, and only had relationships with large firms. Shimizu, pp. 64-5.

⁵⁶ Werner 2003, p. 63.

⁵⁷ Sakakibara and Noguchi, p. 116.

⁵⁸ Werner 2003, p. 63.

with each other “in time of need to rise and fall together”. Furthermore, new entry into the hierarchy was prevented by heavy barriers of regulations, and the position of the banks was also reinforced by “the long-term lending relationship between the banks and corporations”.⁵⁹

Weak Influence of the Shareholders

The second distinctive feature of the post-war Japanese economic system is the weak influence of the shareholders on corporate decisions. During the war, managers were free from the influence of shareholders and accountable to only the planning bureaucrats (who did not have to promote shareholders’ profits). Managers’ responsibility was to achieve two goals: to promote the quantity and quality of their production.⁶⁰ During the war, reform bureaucrats took away the power of the shareholders, including their influence over profit allocations, fund-raising matters and the appointment of managers.⁶¹ Most of the profits were to be used for reinvestment, the promotion of managers and for workers’ incentives by giving them special bonuses.⁶²

After the war, the weak status of shareholders remained, and it further deteriorated under US occupation. For example, there was the degradation of the “Zaibatsu families”. The Zaibatsu families held almost 40 percent of the total shares in Japan (167 million shares out of 443 million).⁶³ Although the official reason for weakening the influence of the Zaibatsu families was because these families contributed to setting up the military regime during the war, the actual reason was because if the influence of the shareholders on corporate decisions was strong, their strong influence might become an impediment to the US’s anticommunist containment policy.⁶⁴ Therefore, General MacArthur was willing to use the US’s occupation power to help weaken the influences of the Zaibatsu families by purging them.⁶⁵ Consequently, the Zaibatsu owners’ shares were sold to the public, and holding companies were not allowed to become established until 1998.⁶⁶ Moreover, “an Anti-Monopoly Law and a Law for the Elimination of Excessive Concentration of Economic Power were enacted

⁵⁹ Adam S. Posen, Introduction: Financial Similarities and Monetary Differences, in Ryoichi Mikitani and Adam S. Posen, ed., *Japan’s Financial Crisis and Its Parallels to U.S. Experience* (Washington DC, 2000), p. 5.

⁶⁰ Werner 2003, p. 16.

⁶¹ Werner 2003, p. 16.

⁶² Werner 2003, p. 17.

⁶³ Werner 2003, p. 17.

⁶⁴ Werner 2003, p. 17.

⁶⁵ Werner 2003, p. 17, Tabb, p. 88.

⁶⁶ Werner 2003, p. 28.

in 1947”.⁶⁷ Thus, the weak influence of shareholders on corporate decisions became recognized as a distinctive feature of the post-war Japanese economic system.

Exclusive Business Culture (keiretsu)

As a third feature of the post-war Japanese economic system, the exclusive business culture and tripartite (business, politician and bureaucrats) cooperation are mentioned. In the wartime economic system, alongside providing quantitative output targets, resources were allocated directly from the top by the ‘visible hand’ of bureaucrats, and control associations were also created in each industry or trade so that each industry was organized to maximize their efficiency with the resources allocated.⁶⁸ Moreover, to improve efficiency in production, “firms and factories were amalgamated into fewer, larger units that could enjoy economies of scale”.⁶⁹ Eventually a highly concentrated economic structure emerged, and in the meantime, “the large firms found it efficient to subcontract production of certain components to smaller firms, who were dependent on them – virtual external subsidiaries”.⁷⁰

The wartime trade and business associations survived in the post-war era, and were strengthened even after the purge of the Zaibatsu families. By the end of the US occupation, “restrictions on stock retention, interlocking directorships, and mergers were relaxed”, and cartels were allowed.⁷¹ Between 1950 and 1970 for a variety of industries, the Japanese government implemented 30 laws, granting immunity from anti-monopoly provisions, including the Export-Import Law, the Insurance Industry Law, the Aviation Industry Law, the Securities Investment Trust Law and the Fruit Industry Promotion Special Measures Laws.⁷² Strong governmental intervention allowed huge numbers of official cartels (the number increased remarkably from 162 in 1955 to 1,079 in 1966).⁷³

In addition to the official cartels, the wartime relationships of small companies as subcontractors or suppliers to the large corporations remained in the post-war era. The role of small companies was important for the post-war Japanese economy in a number of ways. For example, up to the 1990s nearly two-thirds of the labour force was employed by small enterprises (those with less than 100 workers), and these companies

⁶⁷ Werner 2003, p. 28.

⁶⁸ Werner 2003, p. 20.

⁶⁹ Werner 2003, p. 20.

⁷⁰ Werner 2003, p. 20.

⁷¹ Werner 2003, p. 28.

⁷² Werner 2003, p. 28.

⁷³ Werner 2003, p. 22.

produced over half of the total output of the Japanese economy.⁷⁴ Furthermore, the flexible role of those small producers, according to Friedman, contributed to the high-speed growth in the 1960s and 1970s. Small manufacturers chose flexible strategies based not upon price competition, but upon the modification of products and the upgrading of their quality.⁷⁵ A number of scholars recognize the role of small companies as an important part of the dual structure of the Japanese post-war economic system, with small and medium-sized companies squeezing labour and acting as a cheap parts provider to large corporations who were competing with foreign companies in the global market.⁷⁶

In the meantime, in order for companies, including former Zaibatsu and non-Zaibatsu, to strengthen their businesses and make the economic system more efficient and workable, they created their own business group called Keiretsu.⁷⁷ Since central holding companies were not allowed, their regrouping tactic involved the adoption of cross shareholdings, in which each company issued more shares and swapped them amongst each other so as to strengthen their group and keiretsu relationships and to prevent foreign takeovers.⁷⁸ Widespread cross shareholding created capitalism without capitalists. Japanese companies became much more independent from the influence of shareholders and foreign investors.⁷⁹ Therefore, the exclusive business culture and tripartite (business, politician and bureaucrats) cooperation are understood as a distinctive feature of the post-war Japanese economic system.

Furthermore, the main bank system was strengthened by cross shareholding. Banks were only allowed to hold up to 10 percent of the stock of any industrial corporation, but “by arranging the purchase of stock by related keiretsu firms –each buying a small percentage of stock from each other’s firm –they could cumulatively control over two-thirds of all shares”.⁸⁰ Eventually, keiretsu business groups were organized around central banks. They possessed the same structure as the pre-war conglomerates that were organized under holding companies, but in the post-war period, managers, not the capitalist shareholders, controlled the keiretsu business groups.⁸¹ Ultimately, in managerial capitalism, banks and bureaucrats could be stakeholders to allocate resources, thus strong connections were created among bureaucrats, banks and

⁷⁴ Tabb, p. 82, Bailey, p. 92.

⁷⁵ David Friedman, *The misunderstood miracle: industrial development and political change in Japan* (Ithaca, 1988), pp. 10-11.

⁷⁶ Friedman, p. 34, Tabb, p. 82.

⁷⁷ Werner 2003, p. 22, Tabb, p. 88.

⁷⁸ Werner 2003, p. 22.

⁷⁹ Werner 2003, p. 22.

⁸⁰ Werner 2003, p. 28.

⁸¹ Werner 2003, p. 28.

industrial firms.⁸²

In each industry, companies were involved in growth oriented competition against each other, specifically competition for the expansion of their market-share.⁸³ To prevent ‘excess competition’ (katō kyosō) bureaucrats created “explicit or implicit cartels usually administered by the trade associations (the former wartime control associations)” (over 1000 such cartels existed in Japan by 1970s).⁸⁴ However, excessive competition remained until the 1990s, and it produced several social problems, notably karoshi (death from overwork).⁸⁵

Employment Practices

The fourth of the five distinctive features of the post-war Japanese economic system is its employment practices. Lifetime employment and the seniority wage were adopted by large corporations after World War I.⁸⁶ In the late 1930s the Wage Control Ordinance and other government initiatives were introduced to strengthen both lifetime employment and the seniority wage.⁸⁷ The present in-house labour unions were also created during the war. The former industry-based unions were dismantled and “replaced under government initiatives by corporate in-house unions called Sangyo Hokokukai”.⁸⁸ Having gone through these processes, lifetime-employment, the seniority wage and in-house labour unions remained as distinctive employment practices in the post-war Japanese economic system.

Companies were organised in a family manner, and loyalty among the workers and managers to their company was encouraged.⁸⁹ In-house labour unions strengthened the connections inside companies rather than unifying all workers in the same industry.⁹⁰ Moreover, lifetime employment was promoted by providing material benefits, like seniority promotion, higher incomes and pension plans.⁹¹

Taxation

The fifth and final distinctive feature of the post-war Japanese economic system

⁸² Werner 2003, p. 28.

⁸³ Werner 2003, p. 28.

⁸⁴ Werner 2003, p. 30.

⁸⁵ Chie Nakane, Human relations in Japan : summary translation of "Tateshakai no ningen kankei" (Personal relations in a vertical society) (Tokyo, 1972).

⁸⁶ Noguchi 1998, p. 404.

⁸⁷ Noguchi 1998, p. 404.

⁸⁸ Noguchi 1998, p. 404.

⁸⁹ Noguchi 1998, p. 404.

⁹⁰ Noguchi 1998, p. 404.

⁹¹ Noguchi 1998, p. 404.

is its taxation system. The post-war Japanese government's taxation system and its allocation of revenue also originated in wartime. The main source of national revenue in post-war Japan is from income and corporate tax, and the taxation system was born out of the tax reforms of 1940 in which "a source withholding tax on wage income was introduced, and the corporate income tax was newly established".⁹² It was a significant change from pre-war taxation, which relied heavily on "traditional taxes such as land tax, liquor tax, sugar tax and customs duty".⁹³ The post-war allocation and redistribution of revenue also originated in wartime. There were two distinctive features of the post-war tax allocation and redistribution system in Japan. Firstly, the government allocated part of its budget to fostering national industrial sectors. Since the budget of central government was "designed to balance the overall fiscal expenditures and revenues" up to the 1970s, The Fiscal Investment and Loan Program (FILP), which was based on postal saving and insurance, was used for public spending, such as construction of national highways.⁹⁴ Secondly, budget allocation was used to compensate uneven growth rather than minimising inequality of the social classes.⁹⁵ There are two routes of subsidisation, namely regional base and industrial base allocation of government subsidy. For allocation and redistribution purposes, "a subsidy system from the central to the local governments was established in the 1940 reform".⁹⁶ Eventually, in terms of the relationship between the central and local government, the position of the central government was strengthened, but local government autonomy was undermined, and this strong central government system has remained in place throughout the post-war period.⁹⁷ The industrial base subsidy was mainly focused on less competitive sectors such as agriculture, forestry, fisheries and small retailers.⁹⁸ The most typical example is the subsidies to rice farming, such as the rice-pricing policy under the food control system.⁹⁹

Outcomes of the five features

The competition for market-share took place especially in the overseas market

⁹² Noguchi 1998, p. 405.

⁹³ Noguchi 1998, p. 405.

⁹⁴ Sakakibara and Noguchi, p. 119, Yukio Noguchi, 1940 system new edition (shinban 1940 nen taisei) (Tokyo, 2002), p. 113.

⁹⁵ Sakakibara and Noguchi, p. 120, Andrew Dewit and Sven Steinmo, The Political Economy of Taxes and Redistribution in Japan, Social Science Japan Journal, Vol. 5, No. 2, 2002, pp. 166-171.

⁹⁶ Sakakibara and Noguchi, p. 406.

⁹⁷ Sakakibara and Noguchi, p. 406. Dewit and Steinmo, pp. 166-171.

⁹⁸ Sakakibara and Noguchi, pp. 120-2.

⁹⁹ Sakakibara and Noguchi, p. 406, p. 120.

where such explicit or implicit cartels did not exist.¹⁰⁰ The fundamental difference between the Japanese wartime economy and the post-war economy is that the former was organized for military purposes, but the later system was organized in a export oriented way.¹⁰¹ The military products, including weapons, were produced in order to be used or consumed, not produced to gain profits, like trades. Therefore, producing military products was fundamentally wasteful in terms of the economy. However, the production of export goods can earn foreign currency, so in the post war period money was used to strengthen exports by importing other production factors and investing in the expansion of production capacity.¹⁰² Eventually, the dumping-like competition for more of the market-share by Japanese companies ‘assaulted’ the markets in the world by the massive amount of exports. Consequently, developed countries in particular were severely hurt.¹⁰³

4.2. Neoliberal Reform in Japan

Peter Gourevitch explains the following factors affect for the policy-making: interest groups (societal actors), intermediate associations, economic ideology and international environment.¹⁰⁴ These elements affect each other and the political and economic policies and regulations come up in the relation to the elements. Therefore, in order to see clearly how neoliberal reforms as political and economic policies appeared and were implemented, it is important to pay attention to the societal actors, international environment and how they influenced into the political decisions.

4.2.1. Roll-Back Neoliberalisation in Japan

During the roll-back neoliberal reforms, the post-war Japanese economy system remained without any fundamental changes. However, this raises several interesting questions; what reasons were behind Japan adopting such neoliberal reforms and how were these neoliberal reforms implemented without changing the 1940 system? To answer these questions, it is vital to observe what the situation was like in Japan before the roll-back neoliberalisation period.

The end of rapid economic growth

¹⁰⁰ Werner 2003, pp. 32-4.

¹⁰¹ Werner 2003, pp. 32-4.

¹⁰² Werner 2003, pp. 32-4.

¹⁰³ Werner 2003, pp. 32-4.

¹⁰⁴ Peter Gourevitch, *Politics in Hard Times: Comparative Responses to International Economic Crisis* (Ithaca, 1986), pp. 56-62.

Although in the 1970s Japan experienced an oil crisis twice, it managed to keep a relatively higher than average economic growth, compared to the other OECD countries (3.6 % from 1974 to 1979).¹⁰⁵ However, when the annual GDP growth rate recorded zero in 1974, it was obvious that the potential growth rate for the Japanese post-war economic system had declined. As a number of scholars point out, the post-war Japanese economic system faced fundamental limitations associated with its capital accumulation process by the late 1970s.¹⁰⁶ There were at least three important limitations. First, the growth-centric economic structure was not able to adapt to the situation that Japan was facing, and it desperately needed to develop its own technological knowledge and skills. By the end of the 1970s the technological gap between the West and Japan had narrowed, Japan's industrial structure had already developed from light manufacturing to heavy industry and had begun to focus its attention on high-tech industries. During this period of rapid development, the Japanese government established key industries such as machinery, metals and chemicals, but Japan relied heavily on Western knowledge of technology, especially from the US, to foster these sectors.¹⁰⁷ "Between 1957 and 1969 Japan imported 6,326 individual items of technological knowledge, most of them from the United States, and 80 per cent of them related to the three key industries: machinery, metals and chemicals".¹⁰⁸ However, once the technological gap narrowed in the early 1980s, the West began to become more careful when showing or sharing their technical know-how (the friction between the US and Japan over the IC chip in the 1980s is the prominent example).¹⁰⁹ Therefore, Japan was required to modify its economy to one that possessed a more technology-development-oriented economic structure, which invested more money in research and development (R&D) rather than in the maintenance of its growth-centric structure.

Secondly, Japan's rapidly aging society made it difficult to keep its lifetime employment system, especially in terms of the seniority based wage. The working mechanism of the seniority based wage was to raise a worker's wage based on the length of their service to the company while setting the start point of the wage at quite a low level.¹¹⁰ During Japan's period of rapid economic growth, the seniority based wage

¹⁰⁵ Sontachai Suwanakul, What's Wrong with Japan's Economy, *Journal of American academy of Business*, Cambridge, Vol. 6, No. 2, March 2005, p. 143.

¹⁰⁶ Tessa Morris-Suzuki, *Beyond Computopia: Information, Automation and Democracy in Japan* (London, 1988), pp. 49-57, Werner 2003, p. 79. Sakakibara and Noguchi, pp. 98-9.

¹⁰⁷ Morris-Suzuki, p. 48.

¹⁰⁸ Morris-Suzuki, p. 48.

¹⁰⁹ Morris-Suzuki, p. 48.

¹¹⁰ Kazushi Matsuura, Michael Pollitt, Ryoji Takada, and Satoru Tanaka, Institutional Restructuring in the Japanese Economy since 1985, *Journal of Economic Issues*, Vol. XXXVII, No. 4, December, 2003, p.

worked well, because it was supported by high economic growth, and so companies could afford to pay higher wages to senior workers.¹¹¹ However, the Japanese rapid economic growth peaked and eventually its growth rate became lower than in the past. Consequently, these factors coupled with a rapidly aging society meant that the cost of older workers became a burden for firms.¹¹² Thirdly, during the period of rapid economic growth, Japan utilized its excess population in the agrarian countryside as cheap labour for its growing manufacturing sector.¹¹³ Large cities as the production centres absorbed huge numbers from the people-rich countryside, so there was no shortage of cheap labour in the production sector. However, by the early 1970s most of Japan's population had become heavily concentrated in urban areas (for instance, over 40 percent of the population was concentrated in three major cities), therefore this demographic fact coupled with the rapidly aging society meant that Japan faced a fundamental labour-shortage, especially in the production sector.¹¹⁴

By the late 1960s, a number of politicians, bureaucrats and business leaders recognized the limitations of this growth-oriented economic system, and they began to search for “new directions for economic expansion and new ideologies, which would endow those directions with political content and credibility”.¹¹⁵ Three main possible approaches to reform the economic system were considered, but none called for liberalisation. One plan called for economic development through the expansion of the construction industry, which aimed to create networks of highways and express rail routes as well as the construction of new industrial areas and cities throughout the Japanese archipelago.¹¹⁶ The second approach was to shift Japan's growth-oriented economy towards a welfare-oriented economy, and was aimed at transforming Japan into a ‘welfare state’ similar to “other industrialised democracies such as the Scandinavian countries”.¹¹⁷ The third approach was to shift Japan's key industries from heavy and chemical manufacturing to information-oriented technologies.¹¹⁸

Although by the end of 1970s there were some “international minded officials and intellectuals”, who recognized that Japan needed to liberalize and deregulate the economic system, their voices were small and weak and drowned out by the vested interests of bureaucrats, politicians and businesses which had an oligopoly on the closed

1007.

¹¹¹ Matsuura et al, p. 1007.

¹¹² Matsuura et al, p. 1007.

¹¹³ Morris-Suzuki, pp. 49-50.

¹¹⁴ Morris-Suzuki, pp. 49-50.

¹¹⁵ Morris-Suzuki, p. 26.

¹¹⁶ Morris-Suzuki, p. 26.

¹¹⁷ Morris-Suzuki, p. 27.

¹¹⁸ Morris-Suzuki, p. 27.

market.¹¹⁹ Moreover, as the post-war Japanese economic system had created a relatively equal distribution of wealth for ordinary Japanese people, most ordinary Japanese people benefited from the system, and so it was difficult to reach a national consensus to adopt neoliberal reforms in the post-war Japanese economy system.¹²⁰ Thus, Japan's roll-back neoliberal reforms took place amongst negative attitudes towards liberalization.

Pressure for Neoliberal Reform

The initial face of Japan's neoliberal reforms, the roll-back neoliberal reforms, started during the same period when Reagan and Thatcher implemented neoliberal reforms in their countries in the 1980s.¹²¹ Similar to Reagan's and Thatcher's reforms, financial liberalisation and deregulation reforms were introduced and labour unions, especially unions in the public sector, were attacked in Japan. However, unlike Reagan's and Thatcher's reforms, in which roll-back neoliberalisation was used to change every aspect of society to acquire new 'benefits' from international financial markets, Japan's roll-back neoliberalisation only affected a small part of society. This was the result of the particular struggle among and between domestic and international interests that generated the reforms in Japan.

The Connection to the Financial Market

The Japanese government clearly recognised the importance of the international financial market and continued to do so as it expanded. Even though the 1980s marked a boom in international trade, "the flow of goods and services was outclassed by the volume of rapidly expanding capital flow".¹²² From the late 1970s a number of Japanese corporations expanded their businesses overseas, and these companies were willing to fundraise overseas rather than in Japan. Japanese export companies also "wanted to borrow foreign funds to hedge the risk of foreign exchange fluctuations".¹²³ In order to respond to these demands, the liberalization of Japan's financial markets was promoted. In addition, by the mid 1980s Japan became the largest creditor country, and Japanese financial capital was looking for overseas investment destinations, because according to Gilpin, domestic investments were already saturated.¹²⁴ Therefore, to invest overseas, liberalization was promoted. However, this financial liberalization was curbed or modified by domestic and international interests.

¹¹⁹ Werner 2003, p. 74.

¹²⁰ Werner 2003, p. 74.

¹²¹ Makoto Itoh, Assessingneoliberalism in Japan, in Alfredo Saad-Filho and Deborah Johnston ed., *Neoliberalism A Critical Reader* (London, 2005), p. 244.

¹²² Werner 2003, p. 82.

¹²³ Werner 2003, p. 48.

¹²⁴ Gilpin 1987, pp. 333-4.

As mentioned earlier, the post-war financial system was created by the separation of the domestic financial market from the external market and by credit-control through bank-loans. Inside the so-called convoy system, Japanese banks were organized in a hierarchical manner and the MoF played a central role in the supervision of this ‘convoy’. Although liberalization and deregulation were considered to be an advantage in the newly emerged global financial market, the MoF was afraid that liberalization and deregulation might undermine the basis of Japan’s domestic financial system and the dominant position of the MoF as a supervision agency.¹²⁵ Therefore, the MoF was not willing to liberalize the financial market. Instead, it protected its position in the system.

In the mean time, there were some factors promoting financial liberalisation. Owing to relatively slow growth in the 1970s, the Japanese government implemented a series of fiscal stimulus packages through public construction, and also interest rates were reduced several times.¹²⁶ However, without resolving the fundamental limitations of the Japanese post-war economic system, the expansion of public expenditure only resulted in fiscal deficits, and therefore the Japanese government needed to increase government bond issues.¹²⁷ Throughout the post-war period under the balanced budget policy of the Japanese central government, which was passed to prevent any fall in government bond prices, “the bulk of government bond issues had been underwritten by a syndicate of many city and regional banks and reabsorbed a year later in a buying operation by the Bank of Japan”.¹²⁸ The massive increase in the issues of government bonds made it impossible to continue with this traditional operation, and it eventually led to the liberalisation of the bonds market and the creation of government bonds-related financial products, like medium-term government bond funds and bond investment trusts in the 1980s.¹²⁹

Also in the 1980s, Japan came under increasing pressure from the US to liberalise exchange and capital controls. The US, which was suffering from current account and trade deficits, began to demand liberalisation and deregulation in several bilateral talks between the US and Japan in the 1980s. Although the Bretton Woods system had ended and the fixed exchange rate between the dollar and yen had been lifted by 1974, the US implemented a number of protectionist policies, including import

¹²⁵ Kikkawa 1998.

¹²⁶ Werner 2003, p. 78, Tokutaro Shibata, *The American Great Depression and the Japanese Heisei-Era Depression Compared – from an Institutional Approach*, *Seoul Journal of Economics*, Vol. 17, No. 1, Spring 2004, p. 98.

¹²⁷ Shibata 2004, p. 98.

¹²⁸ Shibata 2004, p. 98.

¹²⁹ Shibata 2004, p. 99.

duties on Japanese light trucks under the Carter administration, because the trade imbalance between the US and Japan continued to grow throughout the 1970s and 1980s.¹³⁰ This trade imbalance with Japan seriously hurt the US's prolonged current account deficit. Eventually, in 1987 the US piled up a record deficit of \$ 160 billion, while at the same time Japan accumulated a surplus of over \$ 96 billion.¹³¹ As Petifore argues, for the US to compensate for this deficit and maintain its seigniorage position in the international financial market, money had to be transferred from creditor countries (specifically Japan and West Germany) in various forms, including loans.¹³² However, each creditor country's capital or exchange controls remained. For the US, these controls meant fundamental obstacles. Therefore, from the early 1980s the US with the UK, another indebted country, started a continuous campaign to lift capital and exchange controls internationally.¹³³

In its relationship with Japan, the US used 'bilateral' talks to lift capital and exchange controls in Japan. The US created a Japan-US Committee on the Yen and the Dollar at the end of 1983, in which the deregulation of capital and exchange controls was demanded by the US alongside the internationalisation of the yen.¹³⁴ Moreover, bilateral negotiations took place between the US Treasury and the Japanese Ministry of Finance (MoF) to 'negotiate' the devaluation of the yen against the dollar in 1984.¹³⁵ Then, the Reagan administration introduced a new set of Market-Oriented Sector-Specific (MOSS) talks in 1985.¹³⁶ In the following Bush administration, MOSS talks were further developed and led to the Social Impediment Initiative (SII talk) in 1989, and the US demanded over 200 reforms and deregulations in these SII talks.¹³⁷

Being affected by increasing fiscal deficits caused by massive bond issues in the latter half of the 1970s and by the strong pressure from the US government demanding liberalisation and deregulation, negative attitudes towards liberalisation and fiscal reforms in the public sector in Japan had changed by the early 1980s. So as to respond to the changing domestic and international environments, the Japanese government set up the Economic Reform Council to argue for liberalisation and

¹³⁰ John Welfield, *An empire in eclipse: Japan in the postwar American alliance system* (London, 1988), pp. 330-1.

¹³¹ Gilpin 1987, p. 333. Bailey, p. 143.

¹³² Petifore, p. 42.

¹³³ Petifore, p. 42.

¹³⁴ Tokutaro Shibata, *Tripolarization of the International Banking and Financial Markets*, *Journal of International Economic Studies*, No. 7, Institute of Comparative Economic Studies, Hosei University, 1993, p. 43.

¹³⁵ Leonard J. Schoppa, *Bargaining with Japan: what American Pressure can and cannot do* (New York, 1997), p. 65, Kikkawa 1998, p. 57.

¹³⁶ Schoppa, p. 65.

¹³⁷ Schoppa, ch. 3.

deregulation of the Japanese economic system for the first time under Prime Minister Suzuki Zenko in the early 1980s.¹³⁸ Their arguments were fully based on market-oriented reforms, and the following Nakasone administration issued the famous Maekawa report, which championed a number of liberalisations, deregulations and privatisations.¹³⁹ Scholars and economists also started advocating the necessity to relocate unprofitable manufacturing industries overseas and stressed the importance of Japan's shift from an export-oriented economy towards an expansion of domestic consumption. Thus, to expand domestic consumption "the structural impediments that had reinforced the savings bias and anti-consumption environment needed to be changed".¹⁴⁰ However, in Japan's roll-back neoliberalisation, there was a struggle between domestic interest groups and international pressures. This resulted in only partial neoliberalisation, in which liberalization in the financial sector took place, but the post-war Japanese economic system was left intact. Next, it is necessary to see what the actual reforms were in greater detail.

Reforms

Liberalization in the Financial Sector

Although the internationalization of the Japanese financial market through its liberalisation and deregulation policies started gradually after the end of Bretton Woods fixed exchange rate in 1974, most of the roll-back neoliberal financial reforms were implemented during the early 1980s. As a first step to the internationalisation of the Japanese financial market, a partial amendment to the Foreign Exchange and Control Law of 1947 in December 1980 ensured and facilitated the movement of foreign and domestic capital into and out of Japan in the form of Impact Loans and deposits in foreign currency.¹⁴¹ At the same time, "Japanese banks' loans to non-residents and Japanese financial institutions' investments in foreign securities were also deregulated".¹⁴²

Further liberalisation and deregulation took place under the Nakasone administration in 1984, following the agreement of the Japan-US Committee on the Yen and the Dollar in the previous year. Three major regulations (the 'real demand' rule, the yen conversion limits, and regulations on foreign exchange dealing between banks),

¹³⁸ Itoh 2005, p. 244.

¹³⁹ Werner 2003, p. 79.

¹⁴⁰ Werner 2003, p. 79.

¹⁴¹ Bailey, p. 143, Maximilian J. B. Hall, *Financial Reform in Japan* (Cheltenham, 1998), p. 74, Shibata 1993, p. 43.

¹⁴² Shibata 1993, p. 43.

which restricted and regulated the quantity of money flow and foreign exchange, were abolished.¹⁴³ Moreover, as part of the process of securitisation the regulations on the issue of Euro-yen bonds in the Eurocurrency market by residents in Japan were also lifted in June 1984. After that, “the residents in Japan have been able to borrow the Euro-yen from abroad”.¹⁴⁴ This international financial trade further expanded after the creation of the Japan Offshore Market at the end of 1986.¹⁴⁵ As an example of this expansion, direct foreign investments in Japan increased from \$299 million in 1980 to \$2.6 billion in 1988.¹⁴⁶

In the meantime, the Japanese domestic financial market was stimulated by the creation of new money and security markets. First of all, various call markets, including call money markets, discount bill markets and call dollar markets were liberalized. For instance, by 1985 as the liberalization of the money market took place, rate regulations were abolished, and participants were expanded to city banks, security companies and foreign banks.¹⁴⁷ Similar reforms and liberalizations were implemented in the bill discount market, and an amendment to the Foreign Exchange and Foreign Trade Control Act expanded trade in the call dollar markets, in which the US dollar is dominantly traded.¹⁴⁸ The open market was also extended by the creation of new markets and the deregulation of existing markets. All negotiating Certificates of Deposit markets opened in May 1979, and a series of deregulation reforms were implemented in the 1980s. The Treasury Bonds market was created in 1985 and trade in Commercial Papers began in 1986.¹⁴⁹ Furthermore, alongside this deregulation and liberalization, bond price formation was deregulated, and soon the rate of government bonds was set at the same level as long-term interest rates.¹⁵⁰ Eventually, new financially related products, like medium-term government bond funds, were created and under low interest rates banks were required to compete with these new products.¹⁵¹ Several new financial products, including certificates of deposits, maturity-designated deposits and money-market certificates were developed by banks. In this regard, banks became involved with unregulated markets in order to raise funds.¹⁵²

¹⁴³ J. B. Hall, p. 74, Shibata 1993, p. 43.

¹⁴⁴ Shibata 1993, p. 43.

¹⁴⁵ Shibata 1993, p. 43.

¹⁴⁶ T J. Pempel, From exporter to investor: Japanese foreign economic policy, in Gerald L. Curtis ed., *Japan's foreign policy after the Cold War: coping with change* (New York, 1993) p. 117.

¹⁴⁷ J. B. Hall, p. 76.

¹⁴⁸ J. B. Hall, p. 76.

¹⁴⁹ J. B. Hall, p. 76.

¹⁵⁰ Shibata 2004, p. 99.

¹⁵¹ Shibata 2004, p. 99.

¹⁵² Shibata 2004, p. 99.

Privatization

Privatization played an important role in the roll-back phase of Japanese neoliberal administrative reforms. There were two main objectives for privatisation, namely to reduce the size and role of the government and to weaken the labour unions in the public sector.¹⁵³ Under the Nakasone administration, “The state-run Nippon Telephone and Telegraph (NTT) and Japan National Railways (JNR) were returned to the private sector in 1985 and 1987 respectively”.¹⁵⁴ The privatization of JNR had a significant impact on both objectives, because JNR had piled up over \$2.1 billion in debts, and its labour union was the largest in Japan. NTT also had a monopoly in the communications sector.¹⁵⁵ JNR and other public-sector unions were the bases of the General Council of Trade Union (Sohyo), which was one of the strong national left-wing labour organizations in the post-war period.¹⁵⁶ The inevitable result of the privatisation of JNR was the ‘emasculatation’ of the labour unions in the public sector.¹⁵⁷ In 1989 Sohyo merged with Domei (the Japanese Confederation of Labour), which was more closely aligned with the political centre.¹⁵⁸ Moreover, by the early 1980s the membership of labour unions and their disputes had already decreased significantly. “The number of workers involved in such disputes fell from nearly 3 million in 1975 to less than 100,000 in 1989, while days lost to work fell from 8 million to 220,000 during the same period”.¹⁵⁹

To sum up, during the 1980s partial liberalisations and deregulations were implemented mainly in the financial sector, while the other sectors also experienced several changes, specifically labour relations. This indicates that Japan was less willing to carry out liberalisation at the time of roll-back neoliberalisation, compared to the roll-back neoliberalisation occurring in the US and UK, in which the whole society was changed to gain “benefits” from international financial markets. Japan still maintained three non neoliberal approaches to continue its steady economic growth, namely expansion of the construction industry, building the welfare state and shifting key industries to information-oriented technologies, although the second approach was less popular. This was the distinct characteristic of Japan’s roll-back neoliberalisation.

¹⁵³ Itoh, pp. 244-6, Bailey, p. 151.

¹⁵⁴ Bailey, p. 151.

¹⁵⁵ Bailey, p. 151.

¹⁵⁶ Itoh, pp. 244-5.

¹⁵⁷ Gavan McCormack, *Beyond economism: Japan in a state of transition*, in Gavan McCormack and Yoshio Sugimoto ed., *Democracy in contemporary Japan* (New York, 1986), p. 43.

¹⁵⁸ Itoh, p. 245.

¹⁵⁹ Bailey, p. 152.

Neoliberalisation was not the most ideal way of acquiring benefits and reforming the economy system in the time of roll-back neoliberalisation in Japan, but because of strong international pressures, Japan liberalized and deregulated its financial sector, in which the US and the UK had strong interests.

The Result of Roll-Back Neoliberalisation

Japan became a part of the US Money Recycling system

Japan's roll-back neoliberal reforms influenced the nation both internationally and domestically. Internationally, first of all, as a result of the deregulation and liberalisation of international financial transactions Japan became involved more deeply in the US money recycling system. Used as a mechanism for recycling the petrol dollar in the early 1970s, the US constructed a money recycling system with its major trade partners (chiefly Japan and West Germany in the early 1980s). In the money recycling system, these countries loaned back trade surpluses by purchasing treasury bonds, securities and asset investments to compensate for the dual deficit of the US.¹⁶⁰ In order to attract these countries' investments, after the end of the 1970s US interest rates were kept higher than Japan's and other countries'.¹⁶¹ In 1984, Japan abolished the real demand doctrine. After this, the US attracted Japanese private finance, such as Japanese banks, insurance companies and securities companies as portfolio investments. Even after West Germany rejected the role of supporter, Japan's financial institutions continued their investments in the US.¹⁶² The massive flow of 'Japan money' helped to compensate not only for the trade deficits but also for the fiscal deficits of the US government, which had been created by Reagan's economic and political policies and symbolized by the stance of the strong US dollar and the arms race with the USSR.¹⁶³

However, the rapid appreciation of the yen against US dollar (from 240 yen per US dollar in 1985 to 150 yen in 1987) made it no longer safe to invest in the US.¹⁶⁴ For instance, according to Murphy, "between 1985 and 1988, the top five Japanese insurance firms had lost more than \$25 billion on their US investment".¹⁶⁵ Although some Japanese private portfolio investments changed direction from the US to Europe, specifically Luxemburg, Japan's private financial sector, including Japanese insurance companies and banks, continued to invest in the US.¹⁶⁶ These irrational investments by

¹⁶⁰ Kikkawa 1998, ch. 1, Strange 1998, ch. 3, Gilpin 1987, pp. 333-4.

¹⁶¹ Kikkawa 1998, pp. 80-92, Shibata 2004, pp. 97-8.

¹⁶² Kikkawa 1998, pp. 80-92.

¹⁶³ Kikkawa, ch. 2, Strange 1998, pp. 45-6.

¹⁶⁴ Shibata 1993, p.47, Kikkawa 1998, pp. 59-60.

¹⁶⁵ Taggart R. Murphy, *The Real Price of Japanese Money* (London, 1996), p. 178.

¹⁶⁶ Shibata 1993, p. 47, Kikkawa 1998, pp. 80-92.

the private financial sector were, according to Kikkawa, 'forced' by the Japanese Ministry of Finance (MoF) to prevent a further devaluation of the US dollar. This is because most of Japan's trade surplus with the US was paid with the US dollar and the further appreciation of yen not only hurt Japan's exports, but also hurt invested Japanese assets in the US.¹⁶⁷

Instead of striving to internationalise its own currency, Japan chose to support US dollar and the US's seigniorage position. This choice resulted in the further dollarization of Japan's assets. Eventually, the only alternative for Japan was to maintain its own interests, such as its export industry and foreign investment in the US, by loaning dollars back to the U.S. as long as the two US deficits continued to grow. This is because the U.S. had been the most valuable export market for Japan (at the turn of the new millennium, China's importance as a trade partner increased, however), and a large amount of Japan's trade surplus had already been reinvested into the US as Treasury bonds, securities, and real estate.¹⁶⁸ The US borrowed its own currency from Japan. The scale and significance of this situation were unprecedented in international finance. Gilpin describes:

For the first time a debtor nation stands to benefit both on its capital account and on its trading account from devaluing its currency. With the devaluation of the dollar the United States would in effect expropriate and wipe out a substantial fraction of its debt, for instance the drop of the dollar between March 1985 and March 1986, in fact, may have reduced the debt by as much as one third. Simultaneously, the devaluation of the dollar would regain market that the United States had lost because of the greatly overvalued dollar.¹⁶⁹

The Relocation of the Manufacturing Sector to Overseas Production

Neoliberal financial reforms provided a path for the non-financial sector to operate its business overseas through foreign direct investments (FDI).¹⁷⁰ These FDIs increased sharply in the latter half of the 1980s from just over \$ 10 billion in 1984 to 67.5 billion in 1989.¹⁷¹ The rapid increase in FDIs in the manufacturing sector

¹⁶⁷ Kikkawa 1998, pp. 80-92.

¹⁶⁸ Gilpin 1987, p. 334, Kikkawa 1998, p. 87. In recent years supporting the U.S. dollar is costing Japan more than its trade surplus. For instance in 2003 Japan's trade surplus was 15.8 trillion yen, and 10.5 trillion yen was from the US. In light of the over 20 trillion yen monetary intervention is concerned, it is obvious that the export to the U.S. became a heavy burden to Japanese economy (Kikkawa 2005, p.170).

¹⁶⁹ Gilpin 1987, p. 334.

¹⁷⁰ Miki Hasegawa, Economic Globalization and Homelessness in Japan, The American Behavioral Scientist, Thousand Oaks, Vol. 48, Iss. 8, April 2005, p. 8.

¹⁷¹ Hasegawa, p. 8.

encouraged the relocation of bases of production to the US and low-wage countries in Asia. This relocation undermined the position of domestic production. For instance, by 1990 “the ratio of overseas production against domestic production (measured in sales) had grown to 6.4 per cent from 3.9 per cent in 1985”.¹⁷² Imports from foreign affiliates of Japanese manufacturing in both North America and Asia also increased by over \$ 3000 million in one year from \$ 4432 million in 1986 to \$ 7538 million in 1987.¹⁷³ Moreover, faced with the high valued yen, the old leading industries, including steel, mining and shipbuilding downsized their production scale.¹⁷⁴ Eventually over 2 million jobs in the production sector were lost during the 1980s.¹⁷⁵

The Creation of a Bubble Economy

The series of neoliberal financial reforms caused friction with the post-war Japanese financial system and created an environment that led to the creation of a bubble economy in the late 1980s. In the Plaza Accord in 1985 Japan and West Germany agreed to keep their Official Discount Rate (ODR) lower than the US’s, and even after West Germany refused its cooperation in 1987 Japan made a further reduction of its ODR to 2.5 percent.¹⁷⁶ This low rate was kept until May 1989. This low ODR coupled with the Bank of Japan’s intervention into the currency market to prevent further appreciation of the yen caused excess credit creation, and the excess money was absorbed by real estate and stock markets.¹⁷⁷ This massive flow of liquidity into real estate and stock markets created a boom in both markets.

The financial liberalization and deregulation also contributed to the bubble economy. This financial liberalisation and deregulation provided other opportunities for large corporations to raise funds through equity finance in both domestic and foreign capital markets, including issuing shares, convertible bonds and other securities.¹⁷⁸ While Japanese banks were expanding their business into foreign markets by acquiring bank deposits, domestically they had lost their traditional customers (large manufacturing corporations), and so they were required to find other customers.¹⁷⁹ Then, banks began to lend to medium and small firms, real estate agencies and construction companies, although their credit status was much lower than large

¹⁷² Hasegawa, p. 8.

¹⁷³ Hasegawa, p. 8.

¹⁷⁴ Hasegawa, p. 8.

¹⁷⁵ Hasegawa, p. 8.

¹⁷⁶ Kikkawa 1998, p. 82.

¹⁷⁷ Kikkawa 1998, p. 82.

¹⁷⁸ Matsuura et al, p. 1004.

¹⁷⁹ Matsuura et al, p. 1004, Noguchi 2005, pp. 46-60.

corporations.¹⁸⁰ Once the boom started in real estate and on stock markets, not only financial companies, but also manufacturing companies engaged in speculative activities.¹⁸¹ Both large corporations and small and medium firms were involved in speculative activities. From the January 1985 to December 1989 “stocks rose 240 percent and land prices 245 percent”.¹⁸² The market value of the garden surrounding the Imperial Palace in central Tokyo rose to be the equivalent of the total land value of the entire state of California.¹⁸³

However, during the bubble period not all of the money was used for speculative activities in stock and real estate markets. Between 1985 and 1989 over 2.5 trillion US dollars were invested in new factories overseas and in Japan as well as buildings of the headquarters of leading corporations in the Tokyo business district.¹⁸⁴ The labour market also boomed, and the unemployment rate reached a record low of 2 percent in March 1990.¹⁸⁵ Strong demand in the labour market raised personal incomes and so, consumer expenditure increased significantly as well.¹⁸⁶ “Hence nominal GDP, which consists of consumption, investment in plant and equipment, government spending, and net exports, was pushed up to a growth rate of 5.5 percent on average from 1986 to 1990, and factories operated at maximum capacity utilization”.¹⁸⁷ Therefore, eventually the bubble economy worked as a buffer or mask for the limitations of the post-war Japanese economic system, which had been argued about since the latter half of the 1970s.

4.3. Roll-out Neoliberalisation

4.3.1. The Causes of and Reasons for the Reforms

Although the actual implementation of roll-out neoliberal economic reforms started in the latter half of the 1990s, the origin of Japan’s roll-out neoliberal reforms can be traced back to the Economic Reform Council under Prime Minister Suzuki Zenko in the early 1980s.¹⁸⁸ The council was set up to search for and provide a way to overcome a potential declining growth rate caused by the limitations of the Japanese

¹⁸⁰ Itoh, p. 247.

¹⁸¹ Werner 2003, p. 89, Matsuura et al, p. 1004, Itoh, p. 247.

¹⁸² Werner 2003, p. 89.

¹⁸³ Werner 2003, p. 89.

¹⁸⁴ Werner 2003, p. 91.

¹⁸⁵ Werner 2003, p. 91.

¹⁸⁶ Werner 2003, p. 91.

¹⁸⁷ Werner 2003, p. 91.

¹⁸⁸ Itoh, p. 244.

post-war economy system, which Japan faced by the end of 1970s. However, as noted above, implementing neoliberal reforms was merely one of the alternatives considered for reforming the post-war economy system. There were in fact three non neoliberal approaches. Although the Japanese government failed to reach consensus on any of the three approaches, by the mid 1980s the third model, the information society, was treated and argued as the best possible alternative for reforming the post-growth-oriented Japanese economic system.¹⁸⁹ What this meant was that non neoliberal approaches existed alongside neoliberal approaches.

However, the Japanese government's attitude changed after the collapse of the bubble economy and the failure of its recovery policies. The collapse of the bubble economy occurred in early 1990, and Japan's economy was hurt severely by it. A number of fiscal stimulus packages and policies were implemented soon after the collapse, but Japan did not fully recover from the aftermath of the bubble economy. Japan began to implement roll-out neoliberal reforms for the economy system from the latter half of 1990s. Thus, when Japan began roll-out neoliberal economic reforms, it was already in the middle of a prolonged recession, and neoliberal reforms were implemented as the 'ultimate solution' for the recession. The failure of the economic recovery policies was recognized by the elites as the 'end' of the Japanese post-war economic system. Moreover, the US's economic recovery and boom from the mid 1990s legitimized its neoliberal reforms. However, the bubble economy itself was not a sign that indicated the end of the post-war Japanese economy system.¹⁹⁰ Rather, the bubble economy was the result of friction between the partial liberalization of the Japanese financial sector and the post-war Japanese economy system. Moreover, the collapse of the bubble economy and its aftermath were not actually caused by the limitations of the post-war Japanese economy system. Therefore, before observing what roll-out Japanese neoliberal reforms were, it is important to examine the causes and results of the collapse of the bubble economy.

The Causes and Results of the Collapse of the Bubble Economy

There are a number of important causes of the collapse of the bubble economy. First, the Bank of Japan (BoJ) increased the official discount rate (ODR) at the end of the 1980s and the Ministry of Finance implemented restrictive laws and regulations for land transactions to cool down the already overheated economy.¹⁹¹ Half a year later

¹⁸⁹ Morris-Suzuki, p. 29.

¹⁹⁰ Werner 2003, chapter 10, Werner 2005, part 3, Ben S. Bernanke, Japanese money policy: A Case of Self-Induced Paralysis?, in Ryoichi Mikitani and Adam S. Posen ed., Japan's Financial Crisis and Its Parallels to U.S. Experience (Washington, DC, September 2000), pp. 149-166.

¹⁹¹ Toshiki Jinushi, Yoshihiro Kuroki, and Ryuzo Miyao, Monetary Policy in Japan Since the Late 1980s:

from these implementations, banks suddenly stopped loans to companies in mid 1989.¹⁹² In 1990, the Nikkei 225 index dropped more than 30 percent. Land prices also decreased significantly, for instance “some highly speculative plots of land in commercial districts saw their ‘market value’ drop by 80 percent or more”.¹⁹³

The significant drops in both stock and land prices hurt the Japanese financial system severely. Firstly, from 1992 banks were required to adhere to the equity capital regulation of the Bank for International Settlements (BIS). The BIS capital regulations required banks to hold equity capital of at least 8 percent for international operations and 4 percent for domestic operations.¹⁹⁴ Since in the BIS regulations the value of stocks held by banks was counted as a part of a bank’s equity capital and Japanese banks were trying to meet the regulations by issuing new stocks, the abrupt drop in stock value in 1990 caused a serious credit crunch in Japan. Therefore, after the collapse of the bubble economy Japanese banks began to reduce the size of their loans to meet the BIS regulations.¹⁹⁵ In the mean time, the severe decrease in land prices and the collapse of the real estate market “brought about a crisis for the whole financial system” of Japan.¹⁹⁶ In the Japanese financial system, real estate was often used as collateral for bank loans, and most bank loans were secured by real estate.¹⁹⁷ Since almost all bank loans for small and medium-sized companies were secured by real estate, the plummeting land prices caused small and medium-sized companies to lose “their main source of collateral, substantially reducing their creditworthiness and loan access in the early 1990s”.¹⁹⁸

The impact of the credit crunch and loss in creditworthiness of small and medium-sized companies was significant and immediate, because nearly 70 percent of total employment was shared by these companies, and small and medium-sized companies were not profitable enough to provide “the luxury of lifetime employment and seniority pay”.¹⁹⁹ These companies soon started to reduce bonuses and pay, and even started to reduce the number of their employees.²⁰⁰ Owners of small companies began to spend less and save more.²⁰¹ Domestic demand also shrank, but production

Delayed Policy Actions and Some Explanations, in Ryoichi Mikitani and Adam S. Posen ed., *Japan’s Financial Crisis and Its Parallels to U.S. Experience* (Washington, DC, September 2000), p. 132.

¹⁹² Werner 2003, p. 98.

¹⁹³ Werner 2003, p. 98.

¹⁹⁴ Shimizu, p. 71.

¹⁹⁵ Kikkawa 1998, pp. 105-110, Shimizu, p.71.

¹⁹⁶ Shimizu, p. 74.

¹⁹⁷ Shimizu, p. 73.

¹⁹⁸ Shimizu, p. 73.

¹⁹⁹ Werner 2003, p. 99.

²⁰⁰ Werner 2003, p. 99.

²⁰¹ Werner 2003, p. 99.

capacities increased through investment during the bubble period, so soon producers piled up unsold goods.²⁰² Even the large firms had to start cost-cutting measures. Labour markets worsened further. In short, Japan was in a full-blown recession.²⁰³ The unemployment rate reached a post-war record, and an estimate showed that over five million jobs were lost in that period.²⁰⁴

In dealing with the recession, in 1995 the Japanese government implemented a series of fiscal stimulus packages. A massive amount of money was injected into public construction (over \$1.3 trillion).²⁰⁵ There was no serious concern over the massive spending on public construction, because since the latter half of the 1960s, fiscal stimulus packages through public construction had been a standard prescription for any economic recession in Japan. Moreover, in the SII talks Japan also accepted the expansion of public spending that the US demanded at the end of 1989 as a way of expanding domestic demands (approximately \$3 trillion, initial demand from the US was \$3.4 trillion).²⁰⁶

However, the BoJ's failed monetary policy neutralized the effect of the already less than effective Japanese government economic stimulus packages and actually worsened the recession. As a number of scholars agree, BoJ failed to implement adequate easy money policies.²⁰⁷ In the 1990s the Bank of Japan continuously lowered the official discount rate (ODR) ten times²⁰⁸ and by September 1993 the ODR was reduced to 1.75 percent from the original ODR at 6 percent in July 1991 to stimulate credit creation among private banks. Despite the practice, with the downturn of the stock and real estate markets, for private banks that were struggling to meet the BIS regulations, there was no chance to expand their loans. Thus, what the BoJ aimed through the lowering of the ODR was not achieved.²⁰⁹

What was necessary and sufficient to do in order to recover from the recession was to create new purchasing power, because the creation of more purchasing power expands net transactions and makes the whole economic pie bigger.²¹⁰ Since the only way to expand purchasing power is through credit creation of the banking system or the

²⁰² Werner 2003, p. 99.

²⁰³ Werner 2003, p. 99.

²⁰⁴ Werner 2003, p. 99.

²⁰⁵ Kikkawa 1998, p. 148, Werner 2003, p. 104.

²⁰⁶ Kikkawa 1998, p. 148, Schoppa, pp. 88-9.

²⁰⁷ Werner 2003, pp. 103-14, Werner 2005, pp. 261-6. Bernanke, pp. 151-7. Olivier Blanchard, Bubble, Liquidity Traps, and Monetary Policy, in Ryoichi Mikitani and Adam S. Posen ed., *Japan's Financial Crisis and Its Parallels to U.S. Experience* (Washington, DC, September 2000), pp. 190-3.

²⁰⁸ There was further reduction of the ODR and the ODR eventually reached 0.02 percent in April 2001 (Itoh p. 247).

²⁰⁹ Werner 2003, pp. 103-14, Werner 2005, pp. 261-6. Bernanke, pp. 151-7. Olivier Blanchard, pp. 190-3.

²¹⁰ Werner 2003, pp. 103-14.

central bank, the mandate for the Bank of Japan should have been to expand its credit creation to address Japan's recession during the 1990s when private banks' credit creation failed. If the BoJ had done so, the recession would have had a different result in that Japan's economy could have recovered much earlier.²¹¹ However, the BoJ did not create any credit until 1998. Thus, without any further credit creation the implementation of the series of economic stimulus packages by the government could not stimulate the total economic pie, and only resulted in the reduction of the amount of purchasing power available in the private sector and the further worsening of the account balances of the government.²¹² Moreover, the BoJ's actions caused further appreciation of the yen against the dollar, and the yen reached a record high against the dollar in 1995.

Although the BoJ's monetary policy should have been blamed as one of the main causes of the Japanese recession in the 1990s, the failure of the economic recovery policies was blamed on the fundamental limitations of Japanese economic system by not only scholars and economists, but also politicians, business people and bureaucrats.²¹³ As represented by Krugman's argument of liquidity trap,²¹⁴ scholars and economists began to argue that the Japanese economic structure led to the low domestic demand and the recession, thus the only remaining solution to the recession was to introduce fundamental structural changes, including deregulation and the opening of markets.²¹⁵

4.3.2. Reforms of Roll-out neoliberalisation in Japan

In the Japanese Big-Bang, similar to the British Big-Bang financial reform in the 1980s, earlier neoliberal financial liberalisation was deepened and extended; capital flow that went into and out of Japan was liberalised; different types of financial institutions were blurred; the financial sector was also opened to non-financial sectors; and a number of new markets for financial products were introduced. Alongside this financial liberalisation, the roles of regulatory ministries, including the Ministry of Finance and the Bank of Japan were also modified in a neoliberal manner. The strong and central role of the MoF in the post-war Japanese economic system was weakened,

²¹¹ Werner 2003, pp. 103-14.

²¹² Werner 2003, p. 106.

²¹³ Werner 2003, p. 106.

²¹⁴ Paul Krugman, *It's Back: Japan's Slump and the Return of the Liquidity Trap*, Brookings Paper on Economic Activity 2, 1999, 137- 205.

²¹⁵ Werner, p. 104. Matsuura et al, p. 1002. Ronald Dore, *Japan's Reform Debate: Patriotic Concern or Class Interest? Or Both?*, *Journal of Japanese Studies*, Vol. 25, No. 1, Winter 1999, pp. 65-72. Steven K. Vogel, *Can Japan Disengage? Winners and Losers in Japan's Political Economy, and the Ties that Bind Them*, *Social Science Japan Journal*, Vol. 2, No. 1, 1999a.

and the Bank of Japan became independent from the MoF in 1998. Neoliberal reforms were also implemented in non-financial sectors; holding companies were legalised in 1998; market value accounting was implemented in 2001; commercial law was amended and the American way of corporate governance was introduced; moreover, non-cash M&A (using securities and stocks to take over) was allowed in 2006. Other markets were also deregulated and liberalised. For instance, a number of laws related to the labour market were amended in a more liberal way. Liberalisation promoted more competition, and entrepreneurship was encouraged.

Anti-competitive practices were targeted in a number of ways. “Public prosecutors [became] tough on corporate racketeers, construction dango (informal collusive agreements), and other practices that the war system had brought with it”.²¹⁶ By 1998, over one thousand legal cartels, which were granted exemptions from the Anti-Monopoly Law throughout the post-war era, were deregulated and the number was reduced to almost zero.²¹⁷ The Fair Trade Commission (FTC) was strengthened by a revision of the anti-monopoly laws in 1999 and 2000.²¹⁸ Legal prosecutions by the Fair Trade Commission increased after 1990, and “the real value of fines in the case of unreasonable restraint of trade increased dramatically after 1990”.²¹⁹ Alongside the reductions in the number of official cartels and the strengthening of the FTC, the revision of a number of special laws that were designed to create barriers against new entry into many industries took place.²²⁰ Liberalisation in the telecommunications sector in 1993 resulted in a boom in the manufacture of mobile phones, which created more employment opportunities in the information services sector.²²¹ In 1996, the Electric Enterprise Law was liberalised, and the petrol retailing law was also liberalised.²²² The large-scale retail law, which previously ensured small retailers’ benefits, was revised in 1999.²²³ After the revision of the Large-scale Retail Law, consumer-oriented large shops brought discounting activities into the Japanese retail market.²²⁴

The strong yen caused a further relocation of Japanese manufacturing bases of production into neighbouring Asian countries, including China and Southeast Asia

²¹⁶ Werner 2003, p. 188.

²¹⁷ Werner 2003, p. 188, Werner 2004, p. 29, Matsuura et al, p. 1014.

²¹⁸ Werner 2003, p. 188, Matsuura et al, p. 1015.

²¹⁹ Matsuura et al, p. 1015.

²²⁰ Werner 2003, p. 188.

²²¹ Werner 2003, p. 188.

²²² Werner 2003, p. 188.

²²³ Werner 2003, p. 188.

²²⁴ Werner 2003, p. 188.

during the 1990s.²²⁵ Coupled with the strong yen the increase in overseas production for Japanese manufacturers (for instance in the fiscal year of 1995, Japan produced more abroad than it exported from its shores) led to a rise in imports.²²⁶ Although a large number of these imports consisted of re-imports from Japanese factories overseas, imports from European countries and North America also increased.²²⁷ The percentage of manufactured goods among the imports to Japan soared from 26 percent in 1980 to 64 percent in 2000, which was a “figure rapidly approaching the levels seen in Germany or the United States”.²²⁸

Most roll-out neoliberal reforms were introduced by the Hashimoto administration between 1997 and 1999 and by the Koizumi administration from 2001 to 2006. Hashimoto reformed the organization of the Postal Services. Previously, the Postal Service, which incorporated postal savings and postal life insurance, had been under the control of the Ministry of Posts and Telecommunications, but after 2003, these postal services were managed by a public agency, Japan Post.²²⁹ However, private banks kept insisting that postal savings and insurances were squeezing opportunities of profit from the private financial sector.²³⁰ In terms of the postal service, the carrier industry, especially Yamato Unyu, that is the largest home delivery service in Japan, criticised the fact that the Postal Service was squeezing opportunities from private interests.²³¹

Once Koizumi Junichiro, who was a strong advocate for postal privatisation, became Prime Minister on 26th of April 2001, the privatisation of Japan Post became the central part of his ‘structural reforms with no sacred cows’, which included the privatisation of Japan Highway.²³² As Koizumi’s slogan of *kan kara min* he (from bureaucrats to the private sector) showed, his reform plans for Japan Highway and Japan Post were wholesale changes from the public sector to the private. For instance, although eventually the structural reform of Japan Highway was settled through partial privatisation to repay its piled up debts (over 40 trillion yen), the original plan for the reform of Japan Highway was to sell off all its assets, including roads and service areas to the private sector by issuing equities.²³³ In contrast, the postal reform eventually

²²⁵ Werner 2003, p. 186.

²²⁶ Werner 2003, p. 186.

²²⁷ Werner 2003, p. 186.

²²⁸ Werner 2003, p. 10.

²²⁹ Nishigaki, p. 55.

²³⁰ Nishigaki p. 52, Kikkawa 2005, p. 188, Satoshi Higashitani, *Mineika toiu Kyomou (The Delusion of Privatisation)* (Tokyo, 2005a), pp. 39-42.

²³¹ Higashitani 2005, p. 21.

²³² Higashitani 2005, p. 14, Kikkawa 2005, pp. 185-6.

²³³ Higashitani 2005, chapter 2.

resulted in the full privatisation of Japan Post. From October 2007 Japan Post was reorganised into a holding company with four joint-stock companies; banking, life insurance, mail delivery and post office management.²³⁴ Among the four joint-stock companies, postal banking and insurance companies will be subjected to private sector control until 2017, and the process will be completed through selling their shares by 2017.²³⁵

4.3.3. How the Post-War Japanese Economic System Changed: The Emergence of the Japanese Neoliberal Economy and Its Performance

This section evaluates how the five distinctive features of the post-war Japanese economic system were transformed as a result of the roll-out neoliberal reforms.

The Financial System: the financial system was organized around the main banks in the post-war Japanese Economic System

Big-Bang

As one of the key Big-Bang financial reforms, the revision of the Foreign Exchange and Foreign Trade Control Law took effect on April 1, 1998. Previously only licensed foreign exchange banks could deal in foreign currencies, but now foreign exchange transactions were open to anybody. There was no restriction on capital flow that went into and out of Japan.²³⁶ Cross-border securities transactions and foreign deposits were also liberalised, and now “the range of investment and borrowing opportunities open to both companies and individuals increased dramatically”.²³⁷ Stock broking commissions were liberalized, the distinctions between different types of financial institutions were blurred, and the financial sector was opened to players from overseas as well as other institutions inside Japan (such as retailer Ito-Yokado, Sony, and foreign banks, especially from the US).²³⁸ The Securities market was expanded by the legalisation of asset backed securities (ABS) and special purpose companies (SPCs).²³⁹ Now more and more assets, including not only financial assets, like mortgages, but also non-financial assets (land, building and even patents) could be sold as securities on the market. The ban on derivative transactions (previously regarded as gambling) was also lifted.²⁴⁰ Derivative transactions provided another way of risk

²³⁴ Higashitani 2005, chapter 2.

²³⁵ Higashitani 2005, p. 55.

²³⁶ Werner 2003, p. 182.

²³⁷ Hall 1998, p. 150.

²³⁸ Werner 2003, p. 182.

²³⁹ Hall 1998, p. 150.

²⁴⁰ Hall 1998, p. 150.

hedging for intermediaries and of business risk hedging and “risk/return spectrum of choice” for investors.²⁴¹ This financial liberalisation, eventually, brought about severe competition between global financial and non-financial companies and institutions within the Japanese domestic market, and all financial and non-financial, foreign and domestic companies diversified their financial business activities, including foreign exchange business, securities related activities, bonds and commercial paper businesses.²⁴²

Regulatory Reform in the Financial Sector

The highlights of the Big Bang governmental regulatory reform were the end of the post-war ‘convoy’ system, and the loss of power of the MoF in the financial sector. By 1998, the MoF lost its two power bases, namely the licensing system, and the supervision over the banking system.²⁴³ These tasks were handed over to the newly created Financial Supervisory Agency (FSA), and the MoF’s banking bureau and security bureau were dismantled.²⁴⁴ Two pivotal banks of the post-war financial system, Japan Long-Term Credit Bank and Japan Credit Bank were closed.²⁴⁵ More importantly the Bank of Japan became fully independent from the Ministry of Finance in terms of its monetary policies.²⁴⁶ For the first time in the post war era the Bank of Japan Law was revised in June 1997 and the new law became effective in April 1998.²⁴⁷

Neoliberal financial liberalisation and deregulation restructured the post-war Japanese financial system completely. The window guidance (*madoguchi shido*), the central feature of credit control and allocation was abolished abruptly in July 1991, shortly after the collapse of the bubble economy.²⁴⁸ Moreover, through neoliberal deregulation and administrative reforms, the Ministry of Finance lost its power over bank supervision. Therefore, the MoF’s post-war ‘convoy system’, which was characterised by allowing no banks to fail and keeping up heavy barriers to entry into corporate finance, was seriously damaged. As mentioned before, two long-term-credit banks went bankrupt and were bought by private companies (Long-Term Credit Bank of Japan was taken over by the Ripplewood Holdings Co. of the US and Japan Credit Bank was taken over by the Softbank group in Japan). Although there was only one case (the

²⁴¹ Hall 1998, p. 147.

²⁴² Werner 2003, p. 182.

²⁴³ Werner 2003, p. 180, Suwanakul, p. 146.

²⁴⁴ Werner 2003, p. 180, Suwanakul, p. 146.

²⁴⁵ Werner 2003, p. 180.

²⁴⁶ Werner 2003, p. 180, Suwanakul, p. 145.

²⁴⁷ Werner 2003, p. 180.

²⁴⁸ Werner 2003, p. 139.

Hokkaido Takushoku Bank) of a major bank going bankrupt after the Big Bang financial reform, a number of smaller banks, including local banks, mutual savings, loan banks and credit associations went bankrupt or merged under the ‘market oriented’ stance of the newly created Financial Supervisory Agency (FSA).²⁴⁹ The deterioration of the convoy system also promoted mergers of the big banks.²⁵⁰ In the convoy system, banks were based on keiretsu industrial groups, but after the Big Bang reform, mergers of these banks took place beyond their keiretsu relationship.²⁵¹ Today there are three ‘mega’ banks (Mitsubishi-UFJ financial group, Mizuho financial group, and Mitsui-Sumitomo group) in Japan, and their total assets are now over 100 trillion yen which is “more than 50 percent of the total assets of all banks in Japan”.²⁵²

In addition, the amendments to both the Foreign Exchange and the Foreign Trade Control Law and the deregulation and liberalisation of the entry into different financial services made the banks’ hierarchies meaningless. So, Japan’s financial system shifted from one which was bank-oriented to one which was equity oriented. The entry of foreign financial companies brought about not only high competition in the Japanese financial market, but also led to takeovers of Japanese financial companies.²⁵³ In addition to the example of Japan long-term credit bank mentioned above, “Merrill Lynch took over the bankrupt Yamaichi Securities, and the Travelers Group bought a quarter of Nikko Securities”.²⁵⁴ The liberalisation of stock-broking commissions and entry between different types of finance allowed non-bank businesses (like retailers and manufacturing companies) to engage in banking, and the number of non-bank entries has been increasing ever since.²⁵⁵ The mega Banks began to engage in all three fields of banking (investment, retail, and regional banking), and it made their traditional differences in the convoy system blur.²⁵⁶ Moreover, although large corporations already had changed the way they raised funds from bank loans to equity finance in the late 1980s, after the Big Bang restructuring of restructuring the financial system, more and more small and medium size companies were also required to raise funds on the equity market through securities. This is because the main banks became more careful about providing new loans to small and medium size companies. Therefore, banks began to select companies and make the criteria for providing loans stricter than before.²⁵⁷

²⁴⁹ Mikitani, p. 34, Higashitani 2005, p.227.

²⁵⁰ Mikitani, p. 34.

²⁵¹ Mikitani, p. 34.

²⁵² Mikitani, p. 34.

²⁵³ Werner 2003, p. 187.

²⁵⁴ Werner 2003, p. 187.

²⁵⁵ Mikitani, p. 34, Werner 2003, p. 187.

²⁵⁶ Mikitani, p. 34.

²⁵⁷ Matsuura et al, p. 1004, Satoshi Higashitani, Kinyuchō ga nihonwo horobosu (Financial Supervisory

The Influence of Shareholders: influences of shareholders on corporate decisions were weak

Reforms in Corporate Governance

US-style corporate governance, including the US-style system of a board of directors and stock options, was introduced by the 2002 revision of the Commercial Code and Related laws.²⁵⁸ Despite strong pressures from foreign investors and the Corporate Governance Forum of Japan, only a few companies such as Sony have implemented a US-style board of directors (only 97 listed companies among the over 3800 listed companies by 2004).²⁵⁹ Most of the leading companies only reduced the number of directors to speed up their decision making.²⁶⁰ In 1997 when the stock option was legalized, only a few companies, like Toyota, introduced it, but in 2006, the number of companies that introduced the stock option skyrocketed to 1574 companies, about 41% of listed companies on the major stock markets in Japan.²⁶¹

Through neoliberal reforms, the influence of shareholders was strengthened considerably. There are two important reasons for the strengthening of shareholders' influences. Firstly, there was an increase in the number of foreign shareholders, and these shareholders brought their shareholder-oriented corporate culture to Japan. During the 1990s, the percentage of foreign ownership of Japanese shares tripled from 4.2 per cent in 1990 to 13.2 per cent in 2000.²⁶² The main reason for the increase in foreign investors in Japan was because neoliberal financial reforms opened up the Japanese financial market to foreign investors.²⁶³ Liberalisation of foreign exchange lifted the restrictions on capital flow into Japan, and deregulation of stock broking commissions enabled foreign investors – especially institutional investors, including not only foreign banks and securities companies, but also various fund companies, like pension funds and hedge funds – to buy Japanese shares.²⁶⁴ Moreover, Japanese financial companies and institutions sold their holding shares to meet the BIS regulations because they had been suffering from non-performing loans in the downturn of the stock and real estate

Agency will dismantle the Japanese economic model) (Tokyo, 2005b), p.227.

²⁵⁸ Takashi Araki, Corporate Governance Reforms, Labour Law Developments, and the Future of Japan's Practice-Dependent Stakeholder Model, Japan Labor Review, 2005, p. 31.

²⁵⁹ Araki, p. 33.

²⁶⁰ Araki, p. 34.

²⁶¹ Nikko 2006, www.Nikko.co.jp/news/2006/pdf060627.pdf.

²⁶² Christina L. Ahmadjian and Gregory E. Robbins, A Clash of Capitalisms: Foreign Shareholders and Corporate Restructuring in 1990s Japan, American Sociological Review, Vol. 70, No. 3, June 2005, p. 456.

²⁶³ Werner 2003, p. 187, Ahmadjian and Robbins, p. 457.

²⁶⁴ Werner 2003, p. 187, Hall 1998, p. 150.

markets.²⁶⁵ Japanese banks also sold their shares to compensate for non-performing loans and in order to meet the BIS regulations, and since Japanese insurance companies were the major holders of bank shares, banks' losses directly reflected their profitability.²⁶⁶ The implementation of market value accounting worsened their asset condition and accelerated a further selling-off of shares held by financial companies and institutions.²⁶⁷ Eventually, while foreign ownership of shares was increasing, "the percentage of shares in listed companies held by Japanese financial institutions (mainly banks) decreased from 45.2 percent in 1990 to 37 percent in 2000, whereas the percentage held by business companies decreased from 25.2 to 22.3 percent of list shares".²⁶⁸

The influence of foreign shareholders is shown in two ways. First, except for 1998, during the 1990s foreign investors were the net buyers of stock, and "foreigners had an inordinate influence on share prices because they were much more active in buying and selling shares than Japanese investors, and Japanese investors often followed their moves in and out of stocks".²⁶⁹ The percentage of foreign ownership reached over 20 percent among listed companies on the Tokyo stock exchange. Over 50 percent of daily transactions on the Tokyo stock exchange was also carried out by foreign investors.²⁷⁰ The excessive influence of foreign investors 'dominated' the stock market, and Japanese investors often followed the trends created by foreign investors.²⁷¹ Second, foreign investors also used their influence as share holders. Japanese managers had to be more and more careful about foreign investors' requirements, especially higher dividends. Consequently, traditional low dividends for Japanese shares have increased from 5 percent to over 10 percent in recent years.²⁷²

Secondly the influence of shareholders can also be seen on the pattern of corporations' fundraising and mergers and acquisitions. From the beginning of the 1980s, companies, especially large corporations, shifted their fundraising processes from traditional indirect finance, notably banks' loans, to direct finance like "equity-linked finance such as convertible bonds and bonds with warrants" in international and domestic financial markets.²⁷³ Although equity-linked finance had

²⁶⁵ Ahmadjian and Robbins, p. 456, Kikkawa 2005, pp. 99-110.

²⁶⁶ Ahmadjian and Robbins, p. 456.

²⁶⁷ Ahmadjian and Robbins, p. 456.

²⁶⁸ Ahmadjian and Robbins, p. 457.

²⁶⁹ Ahmadjian and Robbins, p. 457.

²⁷⁰ Kikkawa 2005, p. 95.

²⁷¹ Ahmadjian and Robbins, p. 457.

²⁷² Ahmadjian and Robbins, p. 458.

²⁷³ Takeo Hoshi and Anli Kashiyap, *Corporate Financing and Governance in Japan: The Road to the Future* (Cambridge, 2001), p. 240.

slowed down in the 1990s, companies continued other forms of finance, which were linked to the capital markets, including commercial papers, so the price of their shares still played a main role in their fundraising processes.²⁷⁴ Moreover, takeovers through mergers and acquisitions (M&A) became a strong concern for Japanese managers. “Although hostile takeovers were still rare, there was nevertheless a concern that Japanese firms would soon find themselves on the receiving end of hostile bid”.²⁷⁵ The number of M&As increased rapidly, climbing from only 219 in 1986 to 1366 in 1999. In 2005 Japanese corporations were involved in 2308 M&As.²⁷⁶ Furthermore, non-cash M&As, including exchange shares, were allowed from 2007; thereafter, a great fear of foreign takeovers through non-cash M&As was created because the price of Japanese corporations’ stock was relatively low, compared to the US and other countries’ markets.²⁷⁷

Business Culture: exclusive business culture and tripartite (business, politician and bureaucrats) cooperation in the economy

During the 1990s, the keiretsu system that was created through cross shareholding was dissolved rapidly and to a significant extent. “According to one survey, cross-shareholding ratios of all 2,472 listed firms in Japan fell from about 17 percent in the first half of the 1990s to 10.5 percent in 2000”.²⁷⁸ This is partly because Japanese banks dissolved their cross shareholdings by selling shares to compensate for non-performing loans to meet the BIS regulations as mentioned earlier.²⁷⁹ Eventually, Japanese banks no longer played the role as the ultimate guarantor for the members of the keiretsu companies by providing “unlimited amounts of cheap capital” as their main bank.²⁸⁰ In the mean time, Japanese corporations began to rely on financial markets to raise funds rather than relying on traditional bank loans.

There is another factor that affected the dissolution of the keiretsu system. Although during the 1980s the keiretsu system had been regarded as one of the strong institutional bases of long-term cooperation and international competitiveness, the long-term relationship between firms provided by the keiretsu system became

²⁷⁴ Ahmadjian and Robbins, p. 458.

²⁷⁵ Ahmadjian and Robbins, p. 458.

²⁷⁶ Stephanie Pease, Stanley Paliwoda and Jim Slater, The erosion of stable shareholder practice in Japan, *International Business Review*, No. 15, 2006, p. 631.

²⁷⁷ *International Law Review*, London, May 2004, p.1, Kikkawa 2005, p. 95.

²⁷⁸ Hyeong-Ki Kwon, National Model under Globalization: The Japanese Model and Its Internationalization, *Politics & Society*, Vol. 33, No. 2, June 2005, p. 243.

²⁷⁹ Kwon, p. 244.

²⁸⁰ Kwon, p. 244.

problematic when it came to global competition.²⁸¹ During the latter half of the 1980s Japanese manufactures faced the endaka (strong yen)²⁸², and they “suffered from a sharp decline in their average profitability over this period”.²⁸³ The endaka accelerated the shifting of many manufacturing bases into Asia, and thus the keiretsu long-term relationships with these corporations dissolved rapidly. Specifically, among the keiretsu companies small and medium suppliers of the larger multinationals were affected negatively by the shift, in that these firms’ share of contracted out work decreased significantly from 55 percent in 1986 to 37 percent in 1996, because Japanese multinationals hired more local (overseas) suppliers.²⁸⁴

Domestically, the dissolution of the keiretsu system worked to recreate a relationship between the original equipment manufacturers (OEMs) and their suppliers in order to cut costs. According to Kwon, “the portion of subcontracting firms declined from 65.5 percent in 1981 to 51.6 percent in 1996 and 47.9 percent in 1998”. Subcontractors’ dependence on a main customer also dropped rapidly in the same period, and the ratio declined from 71 percent to 53 percent between 1987 and 1996.²⁸⁵ Moreover, OEMs began to rely on suppliers beyond the traditional keiretsu, and this trend can be seen in the Japanese automobile industry today. For instance, Nissan and Mitubishi use Toyota and Honda suppliers.²⁸⁶

According to Kwon, the dissolution of the traditional keiretsu system, “illustrates neither convergence toward the neoclassical market of spot transactions nor the persistence of traditional keiretsu-centred transactions”.²⁸⁷ Although Japanese OEMs in general have begun to select their suppliers more and more on the open market, they have also maintained a close and tight relationship with some of the selected direct suppliers. For instance, car manufacturers Nissan and Mitsubishi are in the process of trying to build more open-market relations with their suppliers, while Toyota is focusing on “tightening keiretsu governance with a few suppliers”.²⁸⁸ Thus, Japanese inter-firm relationships are in a transitional phase from strong keiretsu system to a new model, which incorporates a hybridisation of keiretsu relationships and the open market.

The strong influence of the MITI in the manufacturing industry was also reduced significantly by the series of neoliberal reforms. During the post-war period the

²⁸¹ Kwon, p. 243.

²⁸² Werner 2003, p. 186.

²⁸³ Matsuura et al., p. 1012.

²⁸⁴ Matsuura et al., p. 1012.

²⁸⁵ Kwon, p. 245.

²⁸⁶ Kwon, p. 245.

²⁸⁷ Kwon, p. 245.

²⁸⁸ Kwon, p. 245.

MITI enjoyed a wide authority which allowed it to intervene in business activities directly and indirectly.²⁸⁹ Directly, the MITI had the autonomy to control business activities through “import quotas and managing foreign capital flows during the high-growth era”.²⁹⁰ Indirectly, the MITI could control corporations by giving them subsidies and administrative guidance.²⁹¹ Moreover, as mentioned earlier, each industry was protected by official cartels and special laws, and these cartels allowed the MITI to practice these direct and indirect policies.²⁹²

The strong influence of the MITI declined in the process of neoliberal reforms. Firstly, financial liberalisation deprived the MITI of the authority to manage foreign capital flows. This financial liberalisation coupled with the endaka (high valued yen) caused Japanese manufacturers to accelerate their plans to shift their production bases to Asian countries.²⁹³ Secondly, the imports of manufactured goods, which had been lowered by the regulations of the MITI, more than doubled from “a low 26 percent in 1980 to 64 percent in 2000”.²⁹⁴ With the increase in foreign direct investment into Japan, the number of foreign companies increased in Japan, and since the main target of the MITI’s policies had been Japanese companies, the increase in the number of foreign companies in Japan “reduced the strength of these policy instruments”.²⁹⁵ Moreover, the “MITI’s ability to coordinate industry behaviour” deteriorated through a decrease in the number of official cartels (decreased from 1,079 in 1966 to zero in 1998), by the abolishing of a special regulated law and by the strengthening of the Japanese Fair Trade Commission.²⁹⁶ Furthermore, “as part of a wider reform of government departments the MITI was reorganised in 2001 into the new Ministry of Economy, Trade and Industry (METI)”.²⁹⁷

Its Employment Practice: specifically the lifetime-employment, the seniority wage, and in-house labour unions, which are typically observed in large organizations

Labour Market Reforms

The liberalisation and deregulation of the labour market accelerated during this period through legislative action. There were three major laws guaranteeing the recent newly emerged flexible labour market, namely the Workers Dispatched Law, the

²⁸⁹ Matsuura et al, p. 1013.

²⁹⁰ Matsuura et al, p. 1013.

²⁹¹ Matsuura et al, p. 1013.

²⁹² Matsuura et al, p. 1013.

²⁹³ Werner 2003, p. 186.

²⁹⁴ Werner 2003, p. 186.

²⁹⁵ Matsuura et al, p. 1014.

²⁹⁶ Matsuura et al, p. 1013, Werner 2003, p. 28.

²⁹⁷ Matsuura et al, p. 1013.

Employment Security Law and the Labour Standards Law. A series of amendments to the Workers Dispatched Law in 1999, 2000 and 2004 opened the path for firms to employ temporary and non-regular workers for professional and manufacturing jobs (from 2004 amendment).²⁹⁸ The revision of the 2000 Workers Dispatched Law allowed firms to establish a ‘Temp to Perm Service (shokai yotei haken)’ so that firms could select their employees before fully employing them.²⁹⁹ The new Employment Security Law of 1999 deregulated the operation of fee-charging and free employment placement agencies to a large extent, but “now, running these employment placement agencies is opened up as side business to a food and drink service establishment, an inn, a loan company or a second business”.³⁰⁰ Finally, the Labour Standards Law of 2003 revised its ceiling for the employment period for dispatched and temporary workers from a maximum of one year to a maximum of three years (a maximum of 5 years for specialized knowledge, skills and experienced workers).³⁰¹

The liberalisation and deregulation of the labour market allowed corporations to implement the cost cutting measures of employing more part-time and dispatched temporary workers.³⁰² During the recession Japanese companies, especially manufacturing companies and financial companies, struggled to improve their Total Factor Productivity (TFP) by lowering their Break Even Point.³⁰³ The Japanese manufacturing sector, which was suffering from the high yen, faced severe difficulties in global competition up to 2002 when the Japanese economy began to show a slow but steady recovery from the prolonged recession.³⁰⁴ Their main solution was to cut labour costs by shifting their factories overseas, which meant laying off workers, and outsourcing and employing more part-timers and dispatched temporary workers.³⁰⁵ However, there was no strong social or labour movement from employees, because labour unions were already weakened by the roll-back reforms of the 1980s. According to Ito, during the last fifteen years Japan’s total break-even point declined by 81 trillion yen from 332 trillion yen in 1992 to 251 trillion yen in 2004.³⁰⁶ Moreover, the excess work force from the high TFP sectors was absorbed by the low TFP sectors, specifically

²⁹⁸ Ikuko Mizushima, Recent Trends in Labour Market Regulations, Japan Labor Review 6, 2004.

²⁹⁹ Mizushima, p. 15.

³⁰⁰ Mizushima, p. 10.

³⁰¹ Dispatched workers are registered in free employment placement agencies, and they are sent to companies as a temporary staff. Hiroya Nakakubo, The 2003 Revision of the Labor Standards Law: Fixed-term Contracts, Dismissal and Discretionary work Schemes, Japan Labor Review 4, 2004, p. 9.

³⁰² Kikkawa 2005, p. 134.

³⁰³ Kikkawa 2005, pp. 128-9. Matsubara, pp. 20-1.

³⁰⁴ Kikkawa 2005, pp. 128-9. Matsubara, pp. 20-1.

³⁰⁵ Matsubara, pp. 20-1.

³⁰⁶ Mitsuharu Ito, Keikijyousyou ha nazeokitaka, Sekai, January 2005.

the service industry, which were liberalised in the process of neoliberal reforms, including retailers, and transportation (including the taxi industry).³⁰⁷

Eventually, lifetime employment was severely affected by the liberalisation of the labour market, and corporations' cost cutting measures led to "more unstable and atypical or non-regular employment".³⁰⁸ In 1990, non-regular employees constituted 20.2 percent of the Japanese work force, but the percentage of non-regular employees increased at a rapid pace and reached 31.5 percent (over 15 million people) in 2004.³⁰⁹ Moreover, the seniority wage was also undermined during the 1990s. By the latter half of the 1980s the seniority wage system had become already problematic to maintain, because in the rapidly aging society the number of young workers had decreased significantly.³¹⁰ Thus, with the collapse of the bubble economy and the following recession, in order to boost their productivity, more and more companies now "have switched from the lockstep seniority system to merit-base pay that could have large rewards for creative individuals", and they have also introduced a flexible year-round hiring.³¹¹

The Taxation System: income and corporate tax were the main sources, and a strong central government allocated and distributed the tax revenues

Tax Reform

Neoliberal taxation reform was implemented in Japan in the same way as in the US. Firstly, corporate tax was reduced from 43.3 percent in 1985 to 30 percent in 2006, and industry continues to demand that the Japanese government reduce the rate even further.³¹² Secondly, income tax was reduced four times (in 1987, 1988, 1995 and 1999), and the rate of maximum income tax was lowered from 75 percent in 1983 to 37 percent in 1999.³¹³ Consumer tax was introduced under the Takeshita administration in April 1989, and the rate was increased from 3 percent to 5 percent under the Hashimoto administration in 1997.³¹⁴ From these tax reforms, revenue from income and corporate tax decreased from 44.4 trillion yen in 1990 to 23.3 trillion yen in 2004, and in the same period, tax revenue from consumer tax more than doubled from 4.6 trillion yen to 9.6 trillion yen.³¹⁵

³⁰⁷ Matsubara, p. 21.

³⁰⁸ Araki, p. 36.

³⁰⁹ Araki, p. 36, Matsubara, p. 33.

³¹⁰ Matsuura et al, p. 1008.

³¹¹ Werner 2003, p. 188.

³¹² Uchibashi, p. 59.

³¹³ Uchibashi, p. 60.

³¹⁴ Uchibashi, p. 59.

³¹⁵ Uchibashi, p. 60.

Contrary to the other distinctive features of the post-war Japanese economic system, which were changed significantly by neoliberalisation, taxation did not change to a large extent. Specifically, the distribution and reallocation of tax revenue did not fundamentally change, although the taxation system was reformed in a neoliberal way by lowering the maximum income tax rate and the corporate tax rate in general.³¹⁶ Distribution was still based on regions rather than social classes, and the dependence of local government on the central government remained strong.³¹⁷ The distribution of revenue through public construction also still dominated the allocation of tax revenue.³¹⁸

During this period, government debts (including central and local governments) kept growing and had already reached 130 percent of GDP in the early 2000s, which was “over twice what it was in 1992 and the highest in the industrialized world”.³¹⁹ Debts were accumulated by ineffective public stimulus packages during the 1990s and an historical scale of government intervention into the foreign exchange market to prevent further appreciation of the yen against the US dollar in early 2000.³²⁰ A rapidly ageing society also led to an expansion of social services, and this became the central issue for government fiscal reforms.³²¹

However, these neoliberal fiscal reforms did not provide a fundamental solution for these problems. Firstly, government revenue decreased because of a series of reductions in the income and corporate tax rates, while the implementation of consumer tax compensated for only a small portion of the amount of reduced corporate and income tax. For instance, in 2004 national tax revenue declined by over 20 trillion yen through the reduction of corporate and income tax, while revenue from consumer tax increased 4 trillion yen.³²² Moreover, in the rapid aging society government spending on social service has been increasing, and Japanese government is required to find new sources of tax revenue, such as another increase in consumer tax.³²³

Secondly, surprisingly, the scale of Japanese bureaucracy, in terms of the number and costs of personnel, was and still is much smaller than those in other developed countries.³²⁴ The number of civil servants (including central and local

³¹⁶ Uchibashi, p. 58.

³¹⁷ Dewit and Stenmo, pp. 166-171.

³¹⁸ Dewit and Stenmo, pp. 166-171.

³¹⁹ Dewit and Stenmo, p. 161.

³²⁰ Takatoshi Ito, Interventions and Japanese economic recovery, *International Economics and Economic Policy*, Vol. 26, November 2005, pp. 219-20, Dewit and Stenmo, p. 164.

³²¹ Dewit and Stenmo, p. 160.

³²² Uchibashi, pp. 58-61.

³²³ Noguchi 2005, p. 222.

³²⁴ Higashitani 2005, p. 112.

governments' officers and workers in special corporations) per 1000 people in Japan was 38 people compared to 79 of the US and 97 in France in the end of 2003.³²⁵ In terms of GDP in 1997, "only 7 percent of Japan's total employment was in the public sector, compared with 31.8 percent in France, 17.1 percent in Germany, 14.4 percent in the USA and (in 1993) 19.5 percent in the UK".³²⁶ Thus, in today's society a further reduction in the number of personnel involved in bureaucracy might result in the deterioration of the public sector service rather than the improvement of the fiscal deficit. Thirdly, the proposed privatisation of postal savings will worsen the situation of the government's fiscal deficit, because postal savings have been used to maintain the price of government bonds. Among these government bonds, 569.9 trillion yen in total, postal savings and insurance constituted over 130 trillion yen (84.5 trillion yen by postal savings and 52.3 trillion yen by postal insurance).³²⁷ Therefore, as Noguchi argues, if privatised postal savings and insurance refuse to support government funding, it will cause a crash in the price of government bonds, which will mean government bankruptcy and a further deterioration of the Japanese economy.³²⁸

4.3.4. Results of the Roll-Out Neoliberalisation

Although the Japanese economy recovered from the prolonged recession in 2002, a series of radical financial reforms since the Japanese Big Bang aimed to put the financial system under a market mechanism to make it more stable and efficient. However, these neoliberal reforms made the Japanese financial system in fact more fragile and unstable. Through further integration in the global financial markets, Japan became easily affected by other countries' financial market results, especially the US and Asian. Soon after the Big Bang reform, an Asian financial crisis during the summer of 1997 triggered an unprecedented financial crisis in Japan.³²⁹ Once Japan's financial crisis became obvious, Japan was targeted by hedge funds and other institutions for their speculative activities.³³⁰ "In October, net selling of Japanese stocks by foreigners amounted to 591.4 billion and ballooned to 754.4 billion in November".³³¹ Since foreign investors dominated the Japanese stock market, stock prices dropped abruptly and banks were severely hurt by the drop, because they were required to meet the BIS

³²⁵ Higashitani 2005, p. 112.

³²⁶ OECD Economic Surveys: Japan 1999/2000, Paris, OECD, 2000, p. 165.

³²⁷ Noguchi 2005, pp. 88.

³²⁸ Noguchi 2005, pp. 88-101.

³²⁹ Eisuke Sakakibara, US-Japanese Economic Policy Conflicts and Coordination during the 1990s, in Ryoichi Mikitani, and Adam S. Posen ed., Japan's Financial Crisis and Its Parallels to U.S. Experience (Washington, DC, September 2000), p. 180.

³³⁰ Sakakibara, p. 180, Kikkawa 2005, pp. 88-111.

³³¹ Sakakibara, p. 180.

regulations while resolving NPL problems.³³² In late November 1997, in international inter-bank lending the Japan premium reached 1 percent and “the US and European banks also gradually reduced their credit lines to Japanese banks”.³³³ Thereafter, Japanese banks “faced difficulties in procuring funds in international markets”.³³⁴

Inconsistency between the Neoliberal Assertions and Actual Events

Roll-out neoliberal financial reforms made the Japanese financial system more fragile, and coupled with international regulations, like the BIS regulations, Japanese banks, financial companies and institutions faced a number of problems. To deal with the problematic Japanese banks, the Japanese government was hesitant about the injection of public funds, because the US had been demanding that Japan apply a ‘market oriented’ solution to the problem, such as “the liquidation of insolvent banks and the expeditious downsizing and restructuring of viable banks”.³³⁵ Even when the spread of the Asian financial crisis to Japan in 1997 worsened Japan’s domestic financial problems up to September in 1998, the US continued to demand that Japan resolve its crisis in a market oriented way.³³⁶ However, once the crisis spread to Russia, Brazil and other Latin American countries and finally to Wall Street, the US’s stance on Japan’s solution changed dramatically, allowing what the US initially prevented Japan from doing, and that is, using a ‘visible hand’ as a solution. This is partly because the US recognized that the collapse of the Japanese financial system would cause a “meltdown of Wall Street and the global economy”.³³⁷ Another reason for the change in the US’s stance is that to solve the problem of ailing Long-Term Capital Management (LTCM),³³⁸ the US Federal Reserve organized a cartel-like bailout for the LTCM “by leaning on Wall Street and international banks to contribute funds so that it could roll over its liabilities”.³³⁹ It was what the US and the IMF did not want Japan and other Asian countries to do in order to solve their crisis, which they described as ‘Asian

³³² Sakakibara, p. 180.

³³³ Sakakibara, p. 180.

³³⁴ Sakakibara, p. 180.

³³⁵ Sakakibara, p. 182.

³³⁶ Sakakibara, p. 182.

³³⁷ Sakakibara, p. 182.

³³⁸ The LTCM accepted as clients only high-net-worth individual investors and institutions. It has accumulated an estimated U.S. \$5 billion from them. However, the fund used this money as collateral to borrow even more money from banks. The banks thus created new credit and gave the hedge funds such as LTCM new purchasing power over resources. LTCM leveraged its capital by more than twenty-five times in the year before its collapse, thus borrowing more than U.S. \$ 100 billion from the worlds’ banks. (Werner 2003: 218).

³³⁹ Werner 2003, p. 218.

Cronyism'.³⁴⁰ Therefore, in the end, the Japanese financial crisis was ironically settled by the 'visible hand' of the Japanese government.

In October 1998 under the Obuchi administration the Japanese Diet passed two pieces of legislation to construct a mechanism that would inject public funds into ailing banks and to help the nationalisation of failed banks.³⁴¹ The Financial Reconstruction Commission (FRC) founded in June 1998 was assigned the task under the Financial Supervisory Agency (FSA).³⁴² Eventually, "by 1 April 1999, 7.5 trillion yen in new capital had been injected into all but one of the top 15 banks and all the important regional banks".³⁴³ The injection of public funds settled the financial crisis, and it also worked to dissolve the Japan premium in inter bank lending at least temporarily between October 1998 and April 1999.³⁴⁴

Although the injection of public funds and the mechanism used to nationalize failed banks eased Japan's financial problems temporarily, under asset deflation and unusually low interest rates, the implementation of further neoliberal reforms, including market value accounting, caused a further deterioration of the Japanese financial system.³⁴⁵ After the turn of the millennium, Japanese companies and banks dissolved cross shareholding and kept selling these shares to prevent latent capital loss.³⁴⁶ The net sales of shares were over 2 trillion yen both in 2000 and 2001, thus, coupled with hedge funds' and other institutions' speculation, mainly shorting operations, the Nikkei 225 index dropped.³⁴⁷ The downturn of the stock market continued. Although the Japanese economy started to recover in early 2002, the Nikkei 225 index reached 7600 yen, which was the lowest price post-bubble, in April 2003.³⁴⁸ It was under the mark of 8400 yen, where all insurance companies, except Nihon Insurance, experienced a latent loss in their stock investment. Moreover, it was close to the borderline where large banks could not maintain 8 percent of capital requirement according the BIS regulations.³⁴⁹ Although Japanese stock prices improved from April 2003 and the Nikkei 225 index reached over 11000 yen, the domination of foreign institutional

³⁴⁰ Werner 2003, p. 218, Sakakibara, p. 182.

³⁴¹ Posen, p. 11, Sakakibara, p. 182.

³⁴² Posen, p. 11.

³⁴³ Posen, p. 12.

³⁴⁴ Posen, p. 12, Sakakibara, p. 182.

³⁴⁵ Kikkawa 2005, p. 103.

³⁴⁶ In the new accounting system all stocks possessed by corporations are valued in market values. Therefore, in the down turn of stock price in Japan a number of Japanese corporations were suffered from the decline of the value of cross shareholding stocks. To avoid further loss (latent capital loss), these corporations began to sell cross shareholding stocks. Kikkawa 2005, p. 105.

³⁴⁷ Kikkawa 2005, ch. 2.

³⁴⁸ Kikkawa 2005, p. 111.

³⁴⁹ Kikkawa 2005, p. 111.

investors continued, and as a result Japanese stock markets remain fundamentally unstable.³⁵⁰

Results of adopting Neoliberalisation: increase of Governmental Intervention

In the mean time, the Japanese government intervened in the currency market to prevent the appreciation of the yen on an historic scale.³⁵¹ Previously the largest amount of money used in the intervention was 7.9 trillion yen in 1999, but this time the total amount of money used in the interventions in both 2003 and 2004 by buying US treasury bonds was 25.3 trillion yen, and the intervention sustained 40 percent of the current account deficit of the US.³⁵² Despite the historical amount of currency intervention, the yen rose against the dollar from 120 yen per dollar in February 2003 to 107 yen at the end of 2003.³⁵³ Japan's current account surplus with the US in the same period was 10.5 trillion yen, and it is possible to say that Japan spent more than double that amount on its currency interventions to achieve the surplus.³⁵⁴ Moreover, as a part of the easy money policy, the Japanese government used excessive credit creation as intervention until 2006. Therefore, the outstanding balance of the BoJ's current-account deposits was kept at over 30 trillion yen.³⁵⁵ However, the massive amount of yen capital was not used by Japanese banks for credit creation, because they kept their lending tight to meet the BIS regulations and to solve the NPLs.³⁵⁶ Under the zero interest rate policy, this abundant yen capital was used by hedge funds and other financial institutions (mainly from the US) to carry-out so-called global carry trade, in which they borrowed yen funds at almost no-interest to gain profits by investing in the US and other countries.³⁵⁷

4.4. Summary

To sum up, the most distinctive features of the post-war Japanese economic system changed or were largely altered. The central features of the post-war Japanese financial system, namely the credit control and convoy system disappeared. Corporate finance shifted from bank loans to equity finance, and the role of the Ministry of Finance was undermined significantly. Through neoliberal financial reforms, the power

³⁵⁰ Kikkawa 2005, ch. 2.

³⁵¹ Kikkawa 2005, p.168, Ito 2005, pp. 219-20.

³⁵² Kikkawa 2005, p.168.

³⁵³ Kikkawa 2005, p. 170.

³⁵⁴ Kikkawa 2005, p. 166.

³⁵⁵ Kikkawa 2005, p. 166.

³⁵⁶ Kikkawa 2005, p. 167.

³⁵⁷ Sakakibara, 180, Kikkawa 2005, p. 167.

of shareholders was strengthened and the importance of equity finance increased dramatically. Although the keiretsu business group was still the central feature of Japanese corporate relationships, their relationship changed and began to show new features. Industrial regulatory ministries, such as the MITI and the JFTC, also changed their role from guarantor of a closed market to the guardians of neoliberal rules. In terms of employment practices, the lifetime-employment and seniority wages had already become an historical phenomenon of the Japanese economic system. Moreover, the neoliberal tax reforms caused a decline in tax revenue, and the privatization of postal savings and insurance led to the question of who will support the heavily indebted central government. That was another problem. Roll-out neoliberal financial reforms, which were supposed to make the financial system more stable and efficient, made the Japanese financial system in fact more fragile and unstable. Through further integration in the global financial markets, Japan became easily affected by other countries' financial market results, especially those of the US's and its Asian neighbours.

Chapter 5: Case Study of Japan: the relationship between neoliberalism and nationalism

In this chapter I discuss the role of political parties as intermediaries in Japan and the changes to this system during the period of neoliberalisation. Then I discuss the social changes brought about by neoliberalisation and the different ways, in which nationalism has (or has not) been employed by political parties in response to these changes.

5.1. Political Parties as Intermediate group

Gourevitch explains how different interests among the societal actors can be presented for the political and economic policies and regulations with his concept of parties as intermediate groups. According to Gourevitch's "intermediate associations explanation", the different interests among the societal actors are often presented through intermediate associations, specifically political parties in order to reflect their interests in political and economic policies and regulations.¹ In other words, the political system that politicians and political parties follow is crucial for the societal actors. Therefore, it is important here to observe the Japanese political system, because it can be clearly seen how different interests among the societal actors can be presented before and after the transnationalized societal actors appeared.

5.1.1. The 1955 System: the mechanism of reallocation of benefit

The merger between Hatoyama's Democrats and Yoshida's Liberals in November 1955 strengthened conservative rule, and the Liberal Democratic Party (*jiyu minshu tou* the LDP) was created.² With the creation of the LDP, Japanese politics was transformed "from the unstable multi-party system of the early post-war year into a quasi two party system". This is called the 1955 system.³ While the LDP enjoyed its dominant position in the government, opposition parties were fragmented (the Socialist Party again split in 1959, and a new party, the Komeito (backed by a religious group, Soka Gakai) emerged in 1964).⁴

¹ Gourevitch, p. 56.

² Bailey, p.69, Dower, p.15.

³ Bailey, p.69.

⁴ Bailey, p.69.

In the 1955 system politics was subordinate to economic growth, and politics existed merely to represent the interests of various sector groups including agriculture and construction, to distribute the gains from economic growth.⁵ The LDP consisted of various groups of delegates, who represented interests of specific sectors and ministries. These delegates were ‘policy tribes known as zoku.’⁶ Zoku Diet members belonged to a specific division (bukai) of the LDP’s Policy Affairs Research Council (PARC), the party’s policy organ.⁷ Each division had strong ties with a ministry and interest group. Since there were strong ties with a specific PARC division (bukai), each ministry and interest group influenced its allocation of the national budget. Moreover, laws and policies could not be presented in the Diet without approval from PARC, so most laws and policies represented the interests of each ministry and interest group.⁸

The LDP maintained its powerbase by keeping strong connections with various interest groups and ministries, and its main function was to settle conflicts between competing interests, although often the LDP itself was “immobilized by its competing commitments”.⁹ Moreover, the political system was geared towards eliminating the economic gaps created between large and small industries and between urban and rural areas, so the LDP’s policies often favoured protectionists: “closed market for agricultural goods; regulatory barriers protecting uncompetitive firms; and bidding rules protecting the construction market, for example”.¹⁰ When it was necessary to resolve a problem or crisis in policymaking (for instance, protectionist uncompetitive sectors caused inefficiencies in the overall economy, and increased tensions with Japan’s trade partners), LDP leaders often used the explanation of gaiatsu (outside pressure) as an excuse, otherwise zoku politicians would simply veto any reform proposals.¹¹ Schoppa describes the situation:

The 1955 system was able to continue because of the multimember district electoral system.... In Japan’s multimember-district electoral system, a party seeking the majority in the Diet needed to have more than one candidate in most districts (ranging from one to six per district). Votes were not transferable.¹²

Therefore, it was unfavorable to political parties which represented only particular interests, like the interests of labour unions, to have more than one candidate in each

⁵ Werner 2003, p. 27.

⁶ Schoppa, p. 97.

⁷ Schoppa, p. 98.

⁸ Schoppa, p. 98.

⁹ Schoppa, p. 98.

¹⁰ Schoppa, p. 97.

¹¹ Schoppa, p.100.

¹² Schoppa, p. 99.

district and achieve a majority in the Diet. In order to have more than one candidate and achieve a majority in the Diet, the LDP allowed their candidates to access government resources to collect support from various interest groups. In other words, every LDP candidate in the same electoral district tolerated each other by representing different interest groups, although they were still members of the LDP.¹³ Moreover, in the multimember electoral system, rural areas were overrepresented, and when they were most overrepresented, rural candidates could be elected with one-third fewer votes than those in urban areas.¹⁴ This over-representation in rural areas worked to promote the interests of non-leading industries and rural areas in the Diet.

5.1.2. Changes in Intermediate Groups: Transformation of Electoral System and Political Parties

The transformation of societal actors brought changes in politics to represent their interests. As the relationships between conventional societal actors became tense, to represent the interests of transnationalized groups, the LDP formed a special commission for neoliberal structural reforms under Prime Minister Suzuki Zenko in 1981.¹⁵ Successive prime ministers, including Nakasone, Hashimoto and Koizumi, continued to use their own economic reform councils under their direct leadership. The members of these councils were mainly chosen from transnationalized societal actors. For instance, the president of the economic council under the Nakasone administration was Maekawa Haruo, who was the former governor of the Bank of Japan. Under Prime Minister Hashimoto Ryutaro the MITI was strongly involved in the council's reform plans. The following Prime Minister, Obuchi Keizo, also formed a special council and filled it with economists and leaders of business executive groups, although Obuchi himself was from the Keiseikai (the former Tanaka faction), the LDP's largest faction, which had a strong connection with conventional interest groups.¹⁶ The 'reformer' Koizumi also set up economic councils to push through his reforms, and not only did Koizumi assign business executives as the members of each economic council, but he also chose Takenaka Heizo, who was a leading neoliberal economist, to be Minister of Economic Reform.¹⁷ Moreover, in the same period, the US upgraded their bilateral negotiations with Japan into an agreement on reform initiatives, in which the US and

¹³ Schoppa, p. 139.

¹⁴ T. J. Pempel, *A Decade of Political Torpor: when Political Logic Trumps Economic Rationality*, in Peter J. Katzenstein and Takashi Shiraishi ed, *Beyond Japan: The Dynamics of East Asian regionalism* (Ithaca and London, 2006), p. 47.

¹⁵ Itoh 2005, p. 244.

¹⁶ Otake, p. 102.

¹⁷ Otake, p. 103.

Japan would 'exchange' submissions and recommendations for structural reform annually.

While transnationalized groups and the US created a close and direct channel to represent their interests in politics and the conventional interests groups lost their influence, urban regions where more of the fragmented and atomized public lived came to have more influence on politics through the electoral reform of 1993. The collapse of the bubble economy, and the LDP's failed solutions to the recession and a series of scandals involving LDP members and civil servants, resulted in the loss of the LDP's ruling position for the first time since 1955.¹⁸ Their successor, the Hosokawa government, formed by a coalition of seven parties, introduced the electoral reform bill in November 1993, and the bill was passed the following January (it came into effect in 1995).¹⁹ With the introduction of the new electoral law, the multimember constituency system was abolished in the lower house election. Instead, single-seat constituencies were divided into 300 small districts based on population, and at least 200 constituencies came to be selected "according to the parties' proportional share of the vote in 11 regional blocs (voters would cast two ballots, one for an individual representative and the other for a political party)".²⁰

This situation is similar to processes Brenner calls reterritorialisation and glocalisation²¹: The transnationalized state attempts to distinguish strategic urban and regional growth centres from others in terms of a political economy inside the national territory.²² In Japan where over 80 percent of population live in urban areas, the new electoral system was based on population, so less populated rural areas lost a number of their representatives in the Lower Diet. This led the decline of the influence of non-transnationalised sectors, including agriculture and construction, which had previously benefited by public spending. In both rural and urban areas the collapse of the prolonged recession and abrupt neoliberal financial liberalisation in the latter half of the 1990s damaged small and medium size companies (S&Ms) severely. The number of S&Ms that failed remained around 14,000 annually between 1992 and 1995, but then

¹⁸ Pempel 2006, p. 47, Bailey, p. 178.

¹⁹ Bailey, p. 179.

²⁰ Bailey, p. 179.

²¹ In contrast to the national projects of the Keynesian welfare state in which industry, population and infrastructure were distributed equally inside a national boundary, glocalised states attempt to distinguish strategic urban and regional growth centres from others in terms of a political economy inside their national territory. (Brenner, p. 206).

²² Neil Brenner, 'Glocalization' as a state spatial strategy: urban entrepreneurialism and the new politics of uneven development in western Europe", in Jamie Peck and Henry Wai-chung Yeung ed., *Remaking the Global Economy* (London, Thousand Oaks, and New Delhi, 2003), p. 206.

reached 19,000 in 2000.²³ Furthermore, the number of labour unions also started decreasing from the early 1980s. This was partly because Japanese workers became wealthier, and also because of neoliberal attacks on labour unions in the 1980s as well as the privatisation of Japan National Railway, which possessed the largest labour union. These factors accelerated the decrease in the membership of labour unions. This promotes not only uneven development in Japan, but also inequality or unfairness between transnationalized and non-transnationalized interest groups and regions. Neoliberal reforms have been implemented that are congruent with the interests of transnationalised groups, and transnationalised sectors (financial sectors, and large manufacturers, like Toyota) and strategic regions (Tokyo as financial centre, and Nagoya as headquarters of Toyota) have benefited from the economic recovery since 2002. In the meantime, non-transnationalised sectors (S&Ms and increasing non-regular workers) were hit by the negative influences of neoliberal reforms severely, agrarian rural areas lost their financial benefit of public spending, and urban areas like Osaka, where huge number of S&Ms are located, did not participate in the economic recovery.

5.2. Economic Growth and the Social Gap in the Neoliberal Era

5.2.1. Uneven Growth and Development

From 2002, Japan's GDP growth rate began to show a positive sign, and since then, the Japanese economy has been growing at over 2 percent annually.²⁴ GDP growth from 2002 was achieved through Japan's conventional route, that is, the expansion of its export trade, helped in a large part by China's rapid economic expansion.²⁵ Japan's percentage of GDP from exports increased from 10 % to 12 % between 2001 and 2005, and specifically China's rapid economic growth contributed to Japan's economic recovery. This GDP growth was largely due to the manufacturing sector, especially large corporations, which promoted TFP growth by lowering their break-even points.²⁶ However, there is a certain gap in economic recovery between large corporations and S&M companies. As Matsubara estimates only 20 percent of corporations, specifically large and export-oriented corporations, experienced economic recovery from 2002.²⁷ In the mean time, small and medium sized companies were

²³ Itoh 2005, p.247.

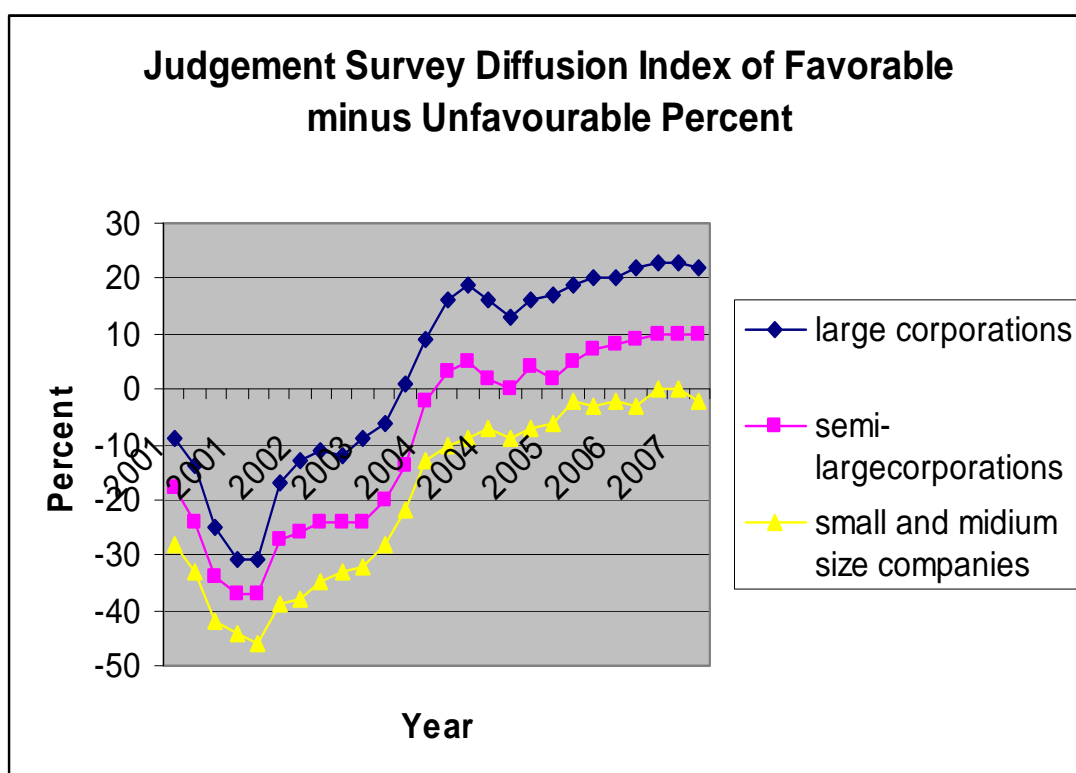
²⁴ Kikkawa 2005, p. 127, Matsubara, p. 16.

²⁵ Kikkawa 2005, p. 127, Matsubara, p. 16.

²⁶ Kikkawa 2005, p. 127, Matsubara, p. 16.

²⁷ Matsubara, p. 31.

excluded from the recovery.²⁸ A short-term economic survey of enterprises in Japan by the Bank of Japan clearly shows the difference among the actual performance of corporations (see Graph 1). While the actual performance of large and semi-large corporations began to show positive signs from the beginning of 2004, the number of managers in S&M companies who said that the performance of their business had improved compared to last month, remained negative, although it recovered from -46 at the beginning of 2002 to nearly zero at the end of 2006.



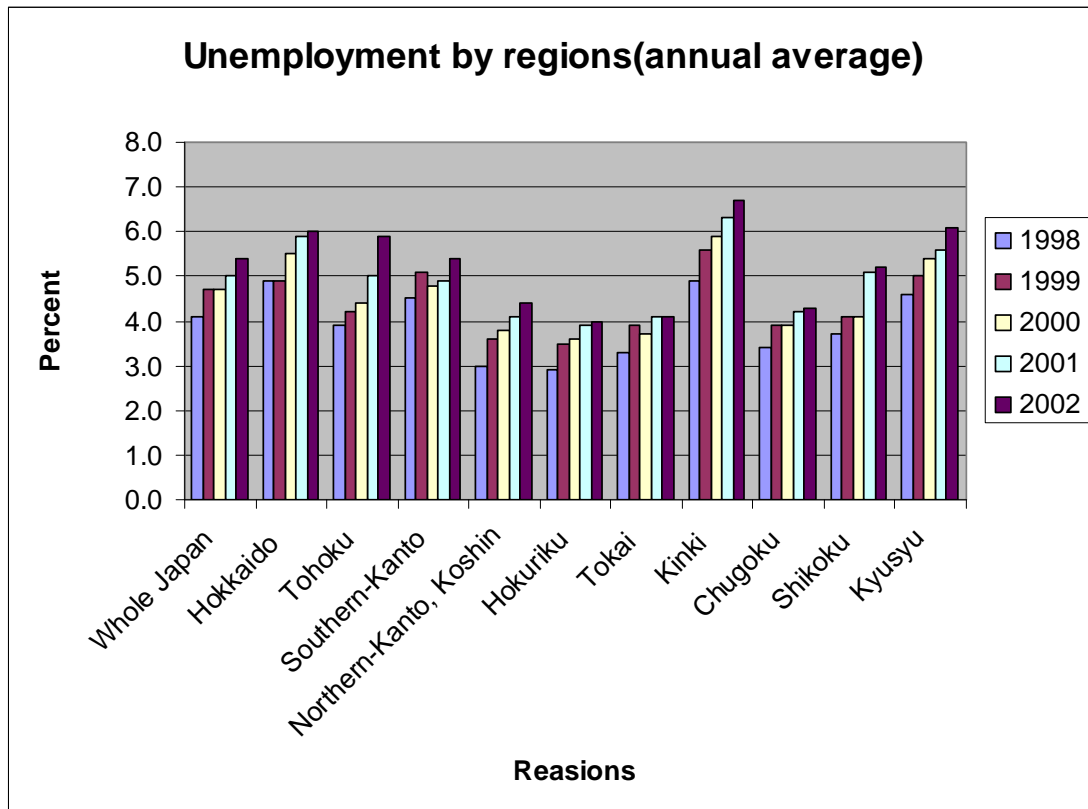
Graph 1: From Short-term of economic survey of enterprises in Japan by Bank of Japan, Judgement survey Diffusion index of favourable minus unfavourable Percent²⁹

The graph of the unemployment rate in all ten regions (graph 2), also shows a gap in the recovery between each region. In general, urban regions where high-tech industries were located, such as North Kanto (northern part of Tokyo) and Hokuriku (famous for pharmaceutical companies) had lower unemployment rates. Notably the unemployment rate of the Tokai region, where Toyota has its headquarters, showed a lower unemployment rate than those of other regions in Japan. It was at least 1 percent

²⁸ Matsubara, p. 31.

²⁹ <http://www.boj.or.jp/theme/research/stat/tk/index.htm>.

lower than the rates in the other regions from 1998 to 2002. In the mean time, rural areas such as Hokkaido and Kyushu had higher unemployment rates. Moreover, Kinki (a region consisting of Osaka, Kobe and Kyoto) had a high unemployment rate even though Kinki was one of the three major highly populated areas.



Graph 2: Created from the Labour Force Survey 2007 of Statistic Bureau of Ministry of Internal Affairs and Communications³⁰

5.2.2. The Social Gap

In the process of economic recovery, the interests of households were largely sacrificed and undermined. First, in order to promote TFP, corporations carried out any reforms necessary that would cut costs, specifically labour costs.³¹ Internationally, companies shifted their factories overseas, and domestically they laid off workers, outsourced labour and employed more part-timers.³² Among the corporations, the manufacturing sector achieved a high TFP growth, and they were helped by the economic growth of Asia, especially China, because these companies could expand their

³⁰ <http://www.stat.go.jp/data/roudou/longtime/zuhyou/lt08-02.xls>.

³¹ Kikkawa 2005, pp. 128-9, Matsubara, pp. 19-21.

³² Matsubara, pp. 19-21.

exports to their Asian neighbours.³³ In the mean time, the unemployment rate remained high at over 5 %, and the unemployment rate of the youth between 15 years old and 24 years old soared to an historical high, which was nearly 10% in 2004.³⁴ In 2004, one out of every two new graduates could not find a regular job.³⁵ Since the economic recovery resulted largely from cutting costs, corporations today are not willing to resume previous employment practices even after the fact that economy has recovered.³⁶ Moreover, corporations are now required to respond to shareholders' demands, such as for high dividends, and so workers' interests have been sacrificed in this regard.³⁷

Although the record low interest rates have provided a great advantage for banks to resolve NPLs and for corporations to promote TFP by borrowing low cost bank loans, households have been severely hurt, because the low interest rates technically relocate deposit interests from households and individuals to overseas investments, banking and corporate sectors.³⁸ Since bank deposits make up nearly half of individual savings in Japan, low interest rates undermine private consumption, which is one of the important elements of GDP growth.³⁹ Moreover, the households have become unable to manage expenses, including consumption, mortgage repayments and light and heating expenses with their income. Now more and more people use their savings to compensate.⁴⁰ This fact is reflected in the Bank of Japan's Flow-of-funds table, which shows that the balance of household capital (balance of total assets of household sector) has become negative in 2004 for the first time since research started in 1990.⁴¹

As Tachibanaki argues, first of all, Japanese income inequality has increased dramatically during the past fifteen years. Japanese Gini coefficients reached their lowest point of 0.313 in 1981 but after Japan experienced neoliberal reforms it reached its highest point of 0.381 in 1999 and 2002. It increased by 0.067, and this was an alarming increase, according to Tachibanaki.⁴² The OECD's calculations also show Japan's high unequal income distribution amongst neoliberal reformed countries, such as Australia, the United Kingdom and the United States.⁴³ The total population of

³³ Matsubara, pp. 19-21.

³⁴ Matsubara, p. 34.

³⁵ Kikkawa 2005, p. 129.

³⁶ Matsubara, p. 31.

³⁷ Matsubara, p. 31.

³⁸ Kikkawa 2005, p. 132.

³⁹ Kikkawa 2005, p. 132.

⁴⁰ Kikkawa 2005, p. 132.

⁴¹ Kikkawa 2005, p. 133.

⁴² Toshiki Tachibanaki, *Confronting Income Inequality in Japan*, Cambridge, Massachusetts, The MIT Press, 2005 pp. 4-16.

⁴³ Tachibanaki, pp. 4-16.

non-regular workers, including part-time, dispatched temporary workers and contract workers, reached 15.64 million in 2004 from less than 10 million in 1993, and it was nearly 30% of the total population of workers, which was 53.72 million in 2004.⁴⁴ The number of non-regular workers increased, especially after amendment to the Labour Dispatched Law. This created a significant income gap between regular and non-regular workers. The average annual income of regular workers is around 4.54 million yen compared to 2.5 million for contract workers, 2.04 million for dispatched workers, and 1.1 million for part-time workers.⁴⁵

As noted above, in 2004 the unemployment rate of the youth between 15 years old and 24 years old increased to nearly 10%, and one out of every two new graduates could not find regular job.⁴⁶ Among the youth the number of *furita*⁴⁷ increased from 1.9 million in 2002 to 2.13 million in 2004, and the number would have increased to 4.0 million if it had included the number of expected-*furita*.⁴⁸ Furthermore, the number of NEET (not in employment education or training) became a serious social issue, and the estimated number provided by MHWL showed that over 3 million youth NEET existed in Japan.⁴⁹ The number of households that were paid social security increased from the latter half of the 1990s, and the number increased by over 400,000 from 600,000 in 1996 to 1.04 million in 2005.⁵⁰ The suicide rate also soared in the latter half of the 1990s, and the number has remained stable at over 30,000 annually from 2000 to the present day.⁵¹ It is noteworthy that among the reasons for suicide, economic reasons more than doubled from 3025 to 6838 in 2000, 7947 in 2004 and 7756 in 2005.⁵² Moreover, the number of crimes increased by over 1 million from 2.46 million in 1996 to 3.42 million in 2004, and the number is increasing at an unprecedented pace.⁵³

To sum up, Japan was able to increase exports, cut costs, and employ non-regular workers through the neoliberal reforms. As a result, GDP growth from 2002 was achieved. However, the uneven economic growth and the income gap became clearer and clearer. There is the certain gap in economic recovery from 2002 between

⁴⁴ Matsubara, p. 33, Uchibashi, pp. 12-3.

⁴⁵ Uchibashi, p. 10.

⁴⁶ Matsubara, p. 34, Kikkawa 2005, p. 129.

⁴⁷ *Furita* was originally used to describe youth who were job hoppers, the fast labour of fast capitalism, and a hip lifestyle to these insecure and inconstant workers in media during bubble economy. Nowadays the meaning of the word expanded to include people (students and homemakers are excluded) who are willing to work, but have difficulty to find regular employment. (see Kelly and White in detail).

⁴⁸ Kelly and White, Matsubara, p. 34.

⁴⁹ Kikkawa 2005, p. 331.

⁵⁰ Uchibashi, p. 15.

⁵¹ Uchibashi, p. 17.

⁵² Uchibashi, p. 17.

⁵³ Uchibashi, p. 19.

large corporations and S&M companies, because small and medium sized companies were excluded from the recovery. After its neoliberal reforms, it became possible for corporations to cut costs, specifically labour costs, by shifting their factories overseas, laying off workers and employing more part-timers. Now companies need to care more about shareholders' requests, such as high dividends, and so workers' interests have been sacrificed in this regard. Moreover, by the record low interest rates, households have been severely hurt, because the low interest rates technically relocate deposit interests from households and individuals to overseas investments, banking and corporate sectors. Now more and more people use their savings to compensate, because the households have become unable to manage expenses with their income. This is reflected in the increase from the latter half of the 1990s in the number of households which were paid social security. After amendment to the Labour Dispatched Law, the number of non-regular workers increased, and as a result of the increase, the income gap between regular and non-regular workers became significant. Therefore, Japanese society seems to be bipolarized as a result of the implementation of neoliberal reforms, and public peace and order in Japanese society has been eroding as seen in the increases at an unprecedented pace in the suicide rate and in the number of crimes.

Even though neoliberal reforms caused a variety of social problems and bipolarized Japanese society, Japan's neoliberalisation still continues today. How is it possible in an electoral democracy to continue with neoliberal reforms despite these negative impacts on a large part of the population? The remainder of this chapter outlines the role that nationalism has played in enabling neoliberal reforms to go ahead.

5.3. Economic Nationalism

As discussed in chapter three, economic nationalism is an ideology and movement, which is strongly congruent with elements of neoliberalism, including market liberalisation, deregulation and individual responsibility. Economic nationalism recalls and reinforces the sentiment of belonging to a nation by providing a view for members to identify with the nation's peculiar economic feature and situation. Economic nationalism also creates a narrative of a future of the nation, and promotes implementing neoliberal reforms as the will of the people. Cultural nationalism is an ideology and movement, which reinforces the sentiment of belonging to a nation, in which members identify with the nation's peculiar culture, set of symbols, beliefs and history, and the will of the people to decide upon their common cultural and political destiny. To understand the role of economic nationalism seen in neoliberalisation, it is vital to study the sentiments among Japanese people first.

5.3.1. Background of Japanese Sentiments in the Early Post-War Period and in The 1980s.

The US Occupation

Initially the US implemented radical liberalisation and democratisation. First, the US introduced a new constitution which assured liberal democracy, and also banned Japan from possessing their own military in Article 9, which was known as the Peace Clause and “which renounced war and the threat of force as a means of settling international disputes, as well as prohibiting the development of land, sea and air forces.”⁵⁴ Secondly, when occupation land reforms were achieved, the percentage of land cultivated by its owners increased by more than thirty percent from 55.7 in 1947 to 88.9 in 1949.⁵⁵ Eventually, these land reforms helped conservative politicians to gain new support.⁵⁶ Thirdly, workers’ rights were ensured and expanded. The enforcement of the Trade Union Law (1945) guaranteed workers’ rights to strike and engage in collective bargaining, and the following Labour Standards Law (1947) regulated minimum standards for working hours and working conditions, including safety and accident compensation.⁵⁷ Coupled with Supreme Commander for the Allied Powers SCAP’s New Deal stance toward labour unions, these labour laws led to a significant increase in the membership of labour unions from 7 percent to 50 percent between 1946 and 1948.⁵⁸ The political left, socialists and communists, played important roles in the labour movement, and in the first half of 1946 over 150,000 workers were involved in the seizure of over 240 factories.⁵⁹ Moreover, their movement escalated into more radical movements, in which “these radical workers challenged both authoritarian order and the fundamental notion of private property.”⁶⁰

The End of the US Occupation and Rapid Economic Growth

The end of the US occupation brought serious conflicts between conservatives and progressives (kakushin), especially over the amendment to the constitution, the existence of the SDF and the security treaty with the US. While the Conservative camp tried to amend the constitution and keep the bilateral security treaty with the US, the

⁵⁴ Bailey, p. 41, Dower, p.7.

⁵⁵ Bailey, p. 41.

⁵⁶ Bailey, p. 48.

⁵⁷ Bailey, p. 49.

⁵⁸ Tabb, p. 79.

⁵⁹ Bailey, p. 49.

⁶⁰ Bailey, p. 41.

progressives opposed both the constitutional amendment and the Security Treaty.⁶¹ However, once conservatives faced strong opposition from progressives against an amendment to the bilateral security treaty with the US., from the early 1960s the main focus of the dominant conservatives became “rapid, often wrenching economic growth” to maintain social stability and their strong base for election, although the bilateral security treaty with the US was still a central issue surrounding security in Japan.⁶²

Even after the GDP-centric policy was adopted by the LDP, up to the end of the 1970s the influence of radicals and the political left remained significant. As an example of the leftist movement, anti-Vietnam War protests started in the same month as when the US bombed North Vietnam in February 1965. The first large scale protest was organized in June 1965, and more than 100,000 Japanese people participated in it. The Citizens’ Federation for Peace in Vietnam (Beheiren), the central piece of the anti-Vietnam War movement, was formed by writers (including the famous Oda Makoto), artists and scholars in 1965. Beiheiren was organized under a loose structure and was not based on any political party, but organized with self-supporting local branches. After that, citizens’ movements in the late 1960s and the early 1970s were modeled on the structure of Beiheiren.⁶³ Throughout the next few years, Beheiren organized a number of anti-war movements, collaborating with anti-war movements overseas, and “it sponsored huge peaceful demonstrations such as the one in June 1969 in which 70,000 people participated”.⁶⁴

Another example of the strong influence of the progressive camp was the citizens’ movement against the failures of the government’s economic policies. At the end of the 1960s the government’s ‘Gross National Product (GNP)-first’ policy for rapid economic growth caused a number of problems, including widespread pollution, increased land costs and poor welfare facilities. In terms of total GNP, Japan became world number two in 1969, but Japan’s GNP/population was only 22nd among capitalist economies.⁶⁵ Statistics showed that considerable numbers of people still lived under the poverty line.⁶⁶ The disillusion with the government’s economic policies among citizens accelerated and led to a nationwide protest movement. These grassroots movements were organized independently by members, and they protested against “established

⁶¹ Bailey, p. 48.

⁶² Sheldon Garon and Mike Mochizuki, Negotiating Social Contracts, in Adrew Gordon eds., “*Post War Japan as History*” (Berkeley, 1993) p.145.

⁶³ Victor J. Koschmann, “Intellectuals and Politics”, in Adrew Gordon eds., “*Post War Japan as History*” (Berkeley, 1993), pp. 414-16.

⁶⁴ Bailey, p.103.

⁶⁵ Bailey, p. 106.

⁶⁶ Koji Taira, “*Dialectics of Economic Growth, National Power, and Distributive Struggles*”, in Adrew Gordon eds., “*Post War Japan as History*” (Berkeley, 1993), pp. 178-9.

authority in connection with local issues.”⁶⁷ These protest movements involved not only political activism, but also lawsuits against powerful economic interests (often collaboration of bureaucrats, politicians, and businesses).⁶⁸

By 1973 around 3,000 groups were organized with 60,000-90,000 activists and “more than one million rank and file participants” to protest against the negative results, including pollution, of the government’s ‘GNP-first’ economic policies.⁶⁹ The government was also concerned about these issues. For instance, in 1969 three government white papers mentioned environmental problems and the low quality of life as negative effects of its ‘GNP-first’ economic development.⁷⁰ As a result, in 1970 in the Diet, or as it was known popularly the ‘Pollution Diet’, a large number of laws concerned with environmental protection and the standard of living were passed.⁷¹ The problems which stemmed from a growth-centric economy were gradually solved in the 1970s, which coincided with the emergence of a bourgeoisie and consumerism in Japan.⁷²

By the end of the 1970s the radical left had little to protest about as many of what once were concerns for the Japanese public had been addressed by the government. For instance, the People’s Organization for Peace in Vietnam (Beheiren), which consisted of many of the Marxist and non-Marxist protest groups, lost its charismatic influence from 1965 to 1973 and finally disbanded in January 1974.⁷³ Internationally, in the 1970s Japan appeared as an economic power, and domestically consumerism was widely apparent among the public. ‘My Home-ism and My Car-ism’ took over the position of Marxism. The extreme wing of the leftist groups engaged more and more in inward factional conflicts and violence (uchigeba).⁷⁴

In Japan until the 1980s, the identity among ordinary Japanese people was formed largely from the American occupation and its reforms. Through the US’s initial policies of liberalisation and demilitarization, the identity of the Japanese people represented by state-oriented ‘authoritarianism’ (specifically during the wartime) was altered to pacifism and a cultural-centric identity. After the end of the US occupation, re-militarization caused social conflicts because of the contradictions between the ‘peace’ constitution and the existence of the Japanese Self-Defence Force (JSDF) and

⁶⁷ Margaret A. McKean, “*Environmental protest and citizen politics in Japan*” (Berkeley, 1981), p.230.

⁶⁸ Bailey, 106.

⁶⁹ McKean, p. 8.

⁷⁰ McKean, p. 8, Bailey, 106.

⁷¹ Dower, p. 26.

⁷² Dower, p. 26.

⁷³ Dower, p. 28.

⁷⁴ Dower, p. 28.

the security treaty with the US. Social discourses over these issues were one of the central features in the post-war social movement in Japan.

By the mid 1980s Japanese society was homogeneous (nearly 90% of its population recognized themselves as middle class people).⁷⁵ This was partly because of Japan's universal and uniform education, and its secular social order as Stronach argues, but it was also largely due to economic development and emerging consumerism.⁷⁶ Although the influence of the left decreased significantly compared to the 1960s and the 1970s, pacifism and 'peace-mindedness' remained as part of 'national character and ideology' shared by the postwar Japanese. Sasada summarised this as follows:

The public favours economic strength, peaceful diplomacy, and a low-key consensus approach; it does not feel seriously threatened by the Soviet Union or Russia; it does not think very highly of the Self-Defence Forces; and it overwhelmingly supports Article 9 of the Constitution.⁷⁷

This widely shared sentiment among the public reflected the popularity of leftist parties, such as the Japan Social Party (JSP) and the Japan Communist Party (JCP), and the left still had a strong influence on education and academia, through the Japanese Teacher's Union (Nikkyoso), and progressive intellectuals (shinpo bunkajin).⁷⁸

5.3.2. Roll-back neoliberalisation without Nationalism

Therefore, although Prime Minister Nakasone Yasuhiro tried to revive cultural nationalism at the same time as implementing a series of neoliberal reforms, Nakasone's nationalism only attracted conservatives who were more concerned about the remaining influence of the left. Once Nakasone was elected Prime Minister in 1982, he made reference to the "final settlement of post-war politics (sengoseijino sokessan)", and wished that Japan would take more responsibility in international society, while domestically he attempted to revitalize Japan's national pride by bringing to an end to widely shared feelings of war guilt and by a conclusive "reassessment of the occupation reform", especially the constitutional amendment.⁷⁹ Despite his initial strenuous declaration, Nakasone's attempts to promote national pride were not as successful as he would have liked. For instance, Nakasone resumed the prime minister's official visit to Yasukuni Shrine on the symbolic date of 15 August.⁸⁰ However, soon Nakasone faced serious criticism from the mass media and leftists, specifically over the

⁷⁵ Bruce Stronach, *Beyond the rising sun (nationalism in contemporary Japan)* (London, 1995), p.64.

⁷⁶ Stronach, p. 70.

⁷⁷ Hironori Sasada, *Youth and Nationalism in Japan*, SAIS Review, Vol. XXVI, No. 2, 2006, p. 110.

⁷⁸ Sasada, p. 110.

⁷⁹ Bailey, p.141.

⁸⁰ Daiki Shibuichi, *The Yasukuni Shrine Dispute and the Politics of Identity in Japan: Why all the Fuss?*, Asian Survey, Vol. 45, Issue 2, 2005 pp. 206-9.

“unconstitutionality of the prime minister’s official visit.”⁸¹ Nakasone also faced criticism from China, and the Chinese Foreign Minister expressed his official displeasure.⁸² Once Nakasone faced severe criticism from inside and outside of Japan, he cancelled another visit to Yasukuni in October 1985.⁸³

The roll-back neoliberal reforms were attempted when Japan’s economy was stable and Japan became the largest creditor country by 1985, therefore, strong national consensus toward neoliberal economic reform did not emerge.⁸⁴ Rather, in the expansion and internationalisation of Japan’s economy people paid more attention to the relations of Japan’s cultural ‘uniqueness’ to both its economic success and internationalisation.⁸⁵ For instance, so-call nihonjinron boom, a number of books and articles arguing about the connection between economic success and cultural uniqueness were published during this period.⁸⁶ According to Yoshino, these nihonjinron books and arguments were mostly consumed by people who engaged in business with foreign countries and by teachers who used them to compare Japanese culture with other cultures to understand where Japan belonged rather than to gain ‘pride’ or boast about the cultural and economical ‘uniqueness’ of Japan.⁸⁷ Furthermore, as Vogel points out, against standard economic theory, throughout the post-war era Japanese consumers were opponents of liberalization.⁸⁸ For instance, a survey carried out by the Yomiuri Shinbun newspaper showed that 57.1 percent supported agricultural protection, while 59.4 percent opposed agricultural liberalization.⁸⁹ This was because they recognized that consumers were simultaneously workers, producers and distributors.⁹⁰ Moreover, consumer groups opposed retail deregulation, because they feared that deregulation

⁸¹ Shibuichi, p. 206-9.

⁸² Shibuichi, p. 207.

⁸³ Shibuichi, p. 206.

⁸⁴ Otake argues that ordinary Japanese people fundamentally lacked the desire for neoliberal economic reform. According to Otake, the main concern among the Japanese people was fiscal account deficit from the late 1970s, and once the account deficit was relieved by the expansion of the economy after 1985 the arguments over neoliberal reforms faded. During the bubble economy the arguments totally disappeared. See more detail in Hideo Otake, *Nihonseijino Tairitsujiku* (The central issues of Japanese Politics since 1993) (Tokyo, 1999), ch. 2.

⁸⁵ For more details, see: about the internationalisation, see Stronach pp. 54-6, and about post-modernism, another cultural trend of Japanese during this period, see Marilyn Ivy, *Critical Texts, Mass Artifacts: The Consumption of Knowledge in Postmodern Japan*, in Masao Miyoshi and H. D. Harootunian ed, *Postmodernism and Japan*, (London, 1989).

⁸⁶ Hall, p. 135.

⁸⁷ Kosaku Yoshino, *Bunkanashonarizumu no Shakaigaku* (Sociology of Cultural Nationalism), Nagoya, University of Nagoya Press, pp. 208-12, also see Kosaku Yoshino eds, *Consuming ethnicity and nationalism: Asian experiences*, Richmond, U.K., Curzon, 1999.

⁸⁸ Vogel, 1999b.

⁸⁹ Vogel 1999a, p. 5.

⁹⁰ Vogel 1999a, p. 5.

would destroy neighbourhood-shopping districts.⁹¹

This resulted in only partial neoliberalisation at the time of roll-back neoliberalisation in Japan. In Japan's roll-back neoliberalisation, there was a struggle between domestic interest groups and international pressures and so, liberalization in the financial sector took place, but the post-war Japanese economic system was left intact. At this point, the both economic and cultural nationalism are not seen because it did not recall nor reinforce the sentiment attached to a nation with the nation's peculiar economic future and situation. Therefore, implementing neoliberal reforms was not promoted as the will of the people.

5.4. Nationalism in the Roll-Out Neoliberal era from 1990 until Koizumi Administration

5.4.1. Creating a National Consensus towards Neoliberal Reform

The situation fundamentally changed with the collapse of the bubble economy and the following recession. In the early 1990s, not only most of the elites, including politicians, scholars, bureaucrats and business executives, but also ordinary Japanese people thought that the recession would not be prolonged and the Japanese economy would recover soon.⁹² However, despite the series of economic stimulus policies by government, the Japanese economy did not show the signs of full economic recovery. First, this caused an identity crisis among Japanese people, because the strong national economy seemed collapsed and the Japanese style of economy turned out to be an obstacle to the economic recovery.⁹³ Then, the populations of Japan, including politicians, bureaucrats and ordinary people, began to think that some kinds of fundamental economic reforms would be necessary for its economic recovery.⁹⁴ At this time, the suggested ideas and views for its economic recovery were all drawn from neoliberal approaches. From the latter half of the 1990s the Japanese mass media became cheerleaders of the structural reforms. Newspapers and TV were filled with economists' and reformists' 'mantra', like 'consumer sovereignty', 'equality of opportunity not of outcomes' and 'global standards'.⁹⁵ The voice of the mass media was largely dominated by pro-neoliberal reformers. The media continued to publish "the

⁹¹ Naokazu Takeuchi, *Nihon no Shōhisha wa Naze Okoranai ka* (Why Don't Japanese Consumers Get Mad?) (Tokyo, 1990), pp. 210-3.

⁹² Otake 1999, p. 157.

⁹³ Hall, p. 136.

⁹⁴ Werner 2003, p. 203.

⁹⁵ Dore 1999, pp. 65-6.

slogans and the signal flags of reformers”, such as ‘deregulation’, ‘competition,’ and ‘consumer sovereignty’, ‘small government’, under the name of global standards.⁹⁶

Dore summarized the arguments of reformers, including economists, scholars, and businessmen who work abroad into four arguments:

1. the principles according to which the typical neoclassical economics textbook says the economy ought to work are *a priori* correct principles;
2. those principles are best exemplified in the American economy;
3. the rightness of those principles is further confirmed by American success; and
4. Japan’s present plight is not just a cyclical phenomenon and a debt-deflation hangover from the bubble⁹⁷

Scholars, economists and commentators continued to point out the necessity of structural reforms and the importance of liberalisation for Japan’s economic recovery after the collapse of the bubble economy. Moreover, once the SII talks started after 1989, the US began to appeal directly to Japanese consumers that they could benefit through liberalization, and from the latter half of the 1990s the mass media supported the US appeals and filled newspapers and the TV with words such as ‘consumer benefits’ and ‘consumer sovereignty’.⁹⁸

For instance, Japan’s leading economic news agency, Nihonkeizai Shinbunsha, changed its tone over the Japanese economy after the collapse of the bubble economy. Up to 1989 newspapers of Nikkei Shinbun praised Japan’s economic system and its economic success, but after the collapse of the bubble economy and following failure of economic recovery policies, these newspapers began to produce articles attacking Japan’s economic system and demanding liberalisation and deregulation.⁹⁹ The number of these newspapers’ articles about the Japanese economic system and management increased from 126 articles in 1985 to 200 in 1989.¹⁰⁰ The number dropped to 148 in 1990 (the year the Japanese stock market crashed), but soon increased again to 194 in 1992 and hit a peak of 228 in 1993.¹⁰¹ The articles before the collapse of the bubble economy were praising the Japanese economic system and management, but after the collapse of the bubble economy the tone of articles became dubious about the relation

⁹⁶ Dore 1999, p. 65.

⁹⁷ Dore 1999, p. 66.

⁹⁸ Schoppa, p.82, Dore 1999, pp.65-6.

⁹⁹ Satoshi Higashitani, Nihonkeizaishinbunha shinyoudekirunoka (Is Nikkei Shinbun newspaper trustworthy?) (Tokyo, 2004).

¹⁰⁰ Higashitani 2004, p. 37.

¹⁰¹ Higashitani 2004, p. 34.

between the system and its success.¹⁰² Finally, from the opinion of the editorial board of *Nihonkeizai Shinbunsha* in 29 February 1992 these newspapers began to attack the Japanese economic system and management and started to demand structural reforms for the economic recovery.¹⁰³

Domestically, “by 1998 a broad consensus had emerged in favour of a historic structural transformation”.¹⁰⁴ In terms of politics, for instance, because of a number of scandals involving politicians and bureaucrats that followed the collapse of the bubble economy, the leading Liberal Democratic Party (LDP) lost in the election of the lower house of the Diet in 1993.¹⁰⁵ As already noted their successor, the Hosokawa administration, changed the election system from a multimember system according greater weighting on the rural vote to a single member district system with respect to population.¹⁰⁶ Therefore, after 1993 not only did the LDP lose its traditional political bases in rural agrarian areas, but also other political parties needed to pay much more attention to city voters who favoured economic structural reforms and who tended to have no fixed loyalty to any particular party.¹⁰⁷ Eventually, by the late 1990s both the LDP and opposition parties were transformed into ‘reformist’ parties (although some minority parties, like the Social Democratic Parties and the Communist Party of Japan still opposed the economic reforms). They became the basis for reformist administrations, such as the Hashimoto administration in 1997 and the Koizumi administration in 2001.

Although bureaucrats’ sectional mind and behaviour and differences in each ministry’s own interests prevented them from showing their aggregated will, a number of ministries and governmental agencies, including the Management and Coordination Agency (MCA), the Fair Trade Commission (FTC) and the Ministry of International Trade and Industry (MITI), showed a strong leaning towards economic structural reforms for their own sake.¹⁰⁸ The FTC, for example, had tried to “take advantage of the reformist mood of the 1990s to strengthen antitrust policy”, and showed a strong initiative in a number of issues, such as the “breaking up of Nippon Telegraph and Telephone (NTT) and lifting the ban on holding companies”.¹⁰⁹ More importantly, the MITI showed strong support for liberalization, although the MITI “represented

¹⁰² Higashitani 2004, ch. 2.

¹⁰³ Higashitani 2004, pp. 47-8.

¹⁰⁴ Werner 2003, p. 104.

¹⁰⁵ Pempel, 2006, p. 47.

¹⁰⁶ Pempel 2006, p. 47.

¹⁰⁷ Pempel 2006, p. 47, Kelly and White, pp. 63-82.

¹⁰⁸ Vogel 1999a, pp. 13-4.

¹⁰⁹ Vogel 1999a, p. 13.

constituencies on both sides: the beneficiaries and the victims of protection and regulation”.¹¹⁰ In the economic structural reforms under Prime Minister Hashimoto, a former MITI minister, MITI was deeply engaged in reform plans, and in fact, many analysts hold the view that MITI bureaucrats wrote the proposals for the reforms, “such as those regarding the reorganization of the central government ministries”.¹¹¹

Three major business associations, namely the Federal Economic Organization (Keidanren), the Employer Association (Nikeiren) which merged with Keidanren, and the Japan Association of Corporate Executives (Keizai Doyukai) showed strong support for economic structural reforms.¹¹² Keizai Doyukai had shown support for liberalization already in the 1970s.¹¹³ Although Keidanren made some compromise with the oil industry “to drop oil from its widely publicized deregulation proposal of November 1994”, Keidanren showed strong support for the structural reforms in general, including liberal and fiscal reforms, agricultural liberalization and deregulation.¹¹⁴ The Japanese Chamber of Commerce and Industry, “which tends to represent smaller business”, was in a different situation: “the most members [were] less than enthusiastic about liberalization, but a few are active proponents”.¹¹⁵

Internationally, the US’s recovery from the recession and its economic boom during the 1990s legitimized liberalisation and deregulation in a neoliberal manner as the right path for Japan’s economic recovery.¹¹⁶ The US continued bilateral talks with Japan under the Clinton administration.¹¹⁷ Clinton strengthened the former SII talks, and the US and Japan ‘agreed to exchange’ annual reform recommendations with each other under the agreement of the Framework for New Economic Partnership in July 1993.¹¹⁸ These bilateral negotiations, which focused on exchanging annual submissions (later changed to an annual recommendation), have continued since the first annual submissions were exchanged in 1994. The influence of the US is also seen in the Japan Investment Commission (JIC) (directly under the cabinet office) where deregulation and liberalisation of the Japanese financial market are argued.¹¹⁹ Both JIC and the Annual Recommendation from the US have been important and influential guides for the

¹¹⁰ Vogel 1999a, p. 13.

¹¹¹ Vogel 1999a, p. 14.

¹¹² Vogel 1999a, p. 14.

¹¹³ Werner 2003, p. xvi.

¹¹⁴ Vogel 1999a, p. 14.

¹¹⁵ Vogel 1999a, p. 14.

¹¹⁶ Werner, p. 104.

¹¹⁷ Schoppa, p. 264.

¹¹⁸ Schoppa, p. 264.

¹¹⁹ Matsubara pp. 104-5.

current ongoing Japanese neoliberal reforms.¹²⁰

These international and domestic factors all worked together to change the negative attitudes towards liberalisation. The reformers' claims achieved profound support from the public who had previously witnessed the failure of the government's fiscal stimulus policies and the corruption of many politicians, bureaucrats and corporations.¹²¹ Moreover, the US's economic recovery and boom from the mid 1990s legitimized its neoliberal reforms. Among the public, a widespread consensus emerged. It was seen as necessary to adopt economic and structural reforms in a neoliberal manner to overcome the ongoing national economic difficulties of Japan.¹²² In the election of the House of Representative in October 1996 all political parties declared administrative reforms as the central issue.¹²³ Among them, the two largest parties, namely the LDP and New Progressing Party (NPP), showed their plans of not only administrative reforms, but also a number of neoliberal structural reforms, including financial liberalisation.¹²⁴ The election resulted in the victory of the LDP which succeeded in showing a stronger reformer stance than NPP.¹²⁵ The LDP gained 239 seats, close to a majority of the House of Representative, and the NPP also collected large support (NPP achieved 156 seats).¹²⁶

This suggests that economic nationalism comes into play at the time of roll-out neoliberalisation in Japan. Proposed neoliberal reforms, including market liberalisation, deregulation and individual responsibility, stimulate and encourage the sentiments attached to a nation among the people by offering a future for the nation, that is, Japan's economic recovery. Economic nationalism unites the people into being supportive of neoliberal reforms and provides the legitimacy for implementation of neoliberal reforms.

5.4.2. The Hashimoto Administration and Neoliberal Reforms

Backed by the strong support from the public, Hashimoto gained strong impetus to implement the Six Big reforms. Among the reform plans, Hashimoto focused on administrative reforms and financial liberalisation. He used the special economic

¹²⁰ Matsubara, pp. 104-5, Kikkawa 2005, pp.139-42.

¹²¹ Dore 1999, p. 67, Werner 2003, p. 187.

¹²² Werner 2003, p. 187.

¹²³ Otake 1999, p. 213, Osamu Takenaka, *Shushōshihai – Nihonseijino Henbō* (Rule of Prime minister – Changing Japanese Politics) (Tokyo, 2006), pp. 49-53.

¹²⁴ Ichirō Ozawa, the party leader of NPP, proposed Remodeling Modeling Play of Japan, and Prime Minister Rūtarō Hashimo, declared 6 Big Reform. Both are based on neoliberalisation. See detail in Otake 1999, ch. 2, and Takenaka, ch. 2 especially pp. 53-78

¹²⁵ Otake 1999, 213.

¹²⁶ Takenaka, p. 282.

council to come up with a framework for these reforms, and he carried out a number of reforms, including radical financial liberalisation, consolidations of ministries of central government and introduction of sales tax.¹²⁷ These reforms were welcomed by almost all of the mass media and economists, and the majority of the public showed a supportive stance.¹²⁸ According to Opinion polls by Asahishinbun newspaper, Hashimoto initially achieved a high approval rate (55 percent), and he maintained over 40 percent of approval rates constantly.¹²⁹ The high public support made it difficult for the traditional interest groups inside the LDP to oppose Hashimoto's reform.¹³⁰ However, once the increase in the sales tax slowed down economic recovery, and the radical financial reforms induced the financial crisis, a question, whether the neoliberal reforms should be continued, was raised among the public.¹³¹ The financial crisis led the public to think that first it was necessary for Japan to recover from the crisis rather than continue neoliberal reforms. Hashimoto's public approval ratings dropped abruptly from over 40 % average in 1997 to 23 % in 1998.¹³² Hashimoto's disapproval ratings kept higher than approval ratings until the end of his administration.¹³³ Eventually, despite the fact that Hashimoto showed strong initiative with his neoliberal reforms, and achieved a number of economic and structural reforms, he lost the upper house election in 1998 and resigned.

This situation illustrates the main characteristic of politics in a neoliberal era, in that politicians need to pay attention to the public while representing the interests of transnationalized groups, because the nation-state is still supposed to be the representative of the will of the people. More importantly, in Japan, there is an economic council, which represented the interests of the transnationalized groups, but for the public, there is no special organization to represent their interests in politics; only politicians could represent their interests. However, in a democracy, support from the public is vital and necessary for politicians to legitimise their decisions and to be elected. Therefore, if one wants to represent the interests of transnationalized groups by implementing neoliberal reforms, it is necessary to gain support from the public in order to implement and continue neoliberal reforms. In the case of economic nationalism by Prime Minister Hashimoto, it can be said that because the financial crisis was

¹²⁷ Hideo Otake, *Nihongata popurizumu* (Japanese Type of Populism) (Tokyo, 2003), p. 25.

¹²⁸ Otake 2003, p. 25.

¹²⁹ Takenaka, p. 54.

¹³⁰ Takenaka, p. 55.

¹³¹ Takenaka, pp. 76-7.

¹³² Yukio Maeda, *jijiseron nimiru naikakushijiritsu no suii* (The changes of public approval rate of administrations in Japan), *Chuōchosaho*, No. 569.

¹³³ Takenaka, p. 77.

significant and was caused by the abrupt neoliberal reforms, it was then difficult to create a narrative of the nation's future (economic recovery) through an ideology of economic nationalism akin to neoliberalism; economic nationalism could not simultaneously facilitate neoliberalisation and reinforce the sentiment of belonging to the nation. Therefore, the unification of the people into being supportive for the continuation of the neoliberal reforms was not achieved.

5.5. Economic Nationalism and Cultural Nationalism Under Koizumi

5.5.1. Changes in Attitudes toward Security and Pacifism before Koizumi was Elected

During the latter half of 1990s, there were noticeable changes in attitudes toward security and pacifism among Japanese people. Territorial disputes with China over Senkaku Island since the 1970s and with Korea over Takeshima since the early 1950s had stalled, and China's natural gas production in territorially disputed waters near Japan from the early 1990s brought another territorial dispute.¹³⁴ Historical disputes, specifically about Japan's aggression during World War II, had come out continuously in different forms, including disputes about history textbooks, and about the prime minister's visit to the Yasukuni shrine.¹³⁵ Security issues were revived by North Korea's missile tests, and the abduction of Japanese citizens, China's double digit expansion and the modernization of its military.¹³⁶ Domestically, the government's lack of ability to solve emergencies was seen in "the sarin gas attacks on major cities by the religious terrorist group of Aum Shinrikyo and the devastating 1995 earthquake in Kobe".¹³⁷ These incidents also helped to reinforce the importance of security among Japanese people.

Moreover, while Japan was suffering from a prolonged economic recession, China, into which Japan was pumping huge sums of money, enjoyed double digit GDP growth, and continued to spend money on massive military expansion and modernization.¹³⁸ This created a fear and then resentment against China, and then opposition to the Japanese government's pacifism stance among Japanese people. In particular, the youth began to show 'xenophobic' attitudes.¹³⁹ As Ishihara complained:

¹³⁴ Sasada, p. 114.

¹³⁵ Sasada, p. 114.

¹³⁶ Sasada, pp. 114-5, Matthews Eugene A., Japan's New Nationalism, Foreign Affairs, Vol. 82, Iss. 6, Nov/Dec 2003, p. 79.

¹³⁷ Pempel 2006, p. 47.

¹³⁸ Matthew, p. 76.

¹³⁹ Matthew, p. 76.

"We pour money into China so they can continue work on developing a hydrogen bomb."¹⁴⁰ Many Japanese people began to feel that Japan had apologized enough for the past and "Tokyo should start asserting itself".¹⁴¹ In the meantime, a number of Japanese people began to regard Article 9 of the constitution, the 'peace' clause, as unnatural for a country with Japan's international stature and believed that the country should have a professional army.¹⁴² These attitudes were strong, especially among the youth, the generation which had been most affected by the negative effects of the prolonged recession.¹⁴³ The public opinion polls about JSDF and security held by the Cabinet Office of Japanese government showed that during the same period the public approval over JSDF and acknowledgement of the necessity of Japan's security alliance with the US nearly doubled from 40.7 percent in 1972 to 76.2 percent in 2006.¹⁴⁴

5.5.2. The Decline of the Left and the Popularity of the Right as Evidence of Nationalistic Sentiment among Japanese People

The decline of post-war pacifism reflected the unpopularity of Leftist parties (JSP and JCP), which had played a central role in mobilizing the youth in pacifist and anti-war movements. One of the important reasons why these Leftist parties lost their support was "their unwillingness to adapt to the post-Cold War environment".¹⁴⁵ Despite the fact that conflicts and disputes with neighbouring countries came to be recognized by ordinary Japanese people, these parties stubbornly clung to their idealistic pacifism, and showed blind sympathy to China, Korea, and even to North Korea. In the meantime, they continued to criticize the US as militarist. Eventually, during the 1990s, their pacifism and anti-war sentiment were seen as double standards.¹⁴⁶ Moreover, the fact that the JSP kept denying the North Korean abduction of Japanese citizens until Kim-Jong Il admitted North Korea's involvement critically hurt the Leftist parties' popularity. They consequently lost most of their seats in the Diet. For instance, in the 2003 election the SDPJ (SDP) won only six seats and the JCP lost two seats from eleven seats out of 480 seats in the lower Diet.¹⁴⁷

¹⁴⁰ Matthew, p. 76.

¹⁴¹ Matthew, p. 76.

¹⁴² Matthew, p. 76.

¹⁴³ Sasada, p. 111.

¹⁴⁴ The Public Opinion Polls about Japanese Self Defence Force and Security by Cabinet Office of Japanese Government. The summary provided by Ministry of Defence of Japan, <http://www.mod.go.jp/j/library/bouei-mondai/1-index.htm>.

¹⁴⁵ Sasada, p. 111.

¹⁴⁶ Sasada, p. 111.

¹⁴⁷ Itoh 2005, p. 245.

During the same period, the political right and conservatives gradually gained popularity. As McCormack points out, from the mid 1990s nationalistic sentiments have been promoted by ‘newcomers,’ including groups of scholars, and individuals.¹⁴⁸ Throughout the post-war period, nationalistic sentiments in Japan had been promoted by traditional rightwing groups and organisations, including the National Shrine Association (Jinja Shincho), and the War Bereaved Families Association (Nihon izokukai), but also by academic scholars and intellectuals, many of whom belonged to rightwing groups in the mid-1990s. For instance, the Liberal View of History Study Group and the Society for the Making of New School Text-books in History were established in 1995 and 1996.¹⁴⁹ Over two years from the spring of 1997, between 80 and 100 books were published by members of these groups on matters of modern history and textbook questions, and the most famous books were a series of books entitled “On War” written by the cartoonist Kobayashi Yosinori (*Sensoron*).¹⁵⁰

Hall and other IPE scholars point out that the collapse of the bubble economy and the following recession weakened Japan’s pride in its economy and its cultural and social ‘uniqueness’, and caused a serious identity crisis among the Japanese.¹⁵¹ However, this identity crisis was not only caused by the economic collapse, but also by other political and social issues. Through out the 1990s, post-war Japanese traditions, such as pacifism and ‘peaceful mindedness,’ gradually disappeared, and the feelings and attitudes shared by the Japanese also changed. The Japanese public began to regard certain issues such as rearmament, constitutional revision, and patriotism as not taboo.¹⁵² Conservative intellectuals and media commentators began to express nationalistic sentiments, and people, especially the youth, started to argue publicly about topics which had been previously treated as taboos.¹⁵³

For instance, the Yomiuri Shinbun, Japan’s largest subscription paper, continuously provided arguments for constitutional revision, and its editorial board stated that it is the right time to create a new constitution. According to their argument, the majority of voters now share a common view over the necessity of amending the ‘peace’ clause to match up with the historic changes in the international situation and Japan’s national security needs in the post-Cold War international order.¹⁵⁴ Moreover, a

¹⁴⁸ Gavan McCormack, *Nationalism and Identity in Post-Cold War Japan*, in Roy Starrs eds, *Nations Under Siege* (New York, 2002), p. 143.

¹⁴⁹ McCormack 2002, p. 144.

¹⁵⁰ McCormack 2002, p. 144.

¹⁵¹ Hall, p. 135.

¹⁵² Sasada, p. 117.

¹⁵³ Sasada, p. 117.

¹⁵⁴ Yomiuri Shinbun website, "Time is right to update constitution," 4 April 2006, <http://www.yomiuri.co.jp/dy/editorial/20060404TDY0400S.htm>.

number of newspapers and magazines, including *Bungeishunjyū*, *Seiron* and *Shokun!*, provided a place for conservative intellectuals to express their nationalist messages.¹⁵⁵ While these magazines increased their number of monthly copies (*Bungeishunjyū*: 626,750 copies, *Seiron*: 93,271 copies and *Shokun!*: 81,667 copies in 2006), left-wing newspapers and magazines decreased their monthly sales (*Sekai*: decreased from over 200,000 copies monthly to 70,000 copies monthly in 1990s and *Ronza*: sold only 19,125 copies in 2006).¹⁵⁶

Therefore, it can be argued that in Japan, from the latter half of the 1990s, there was increasing support for the idea that some kind of profound reform was required not only to pull Japan's economy up as Hall argues, but also with regard to the nation and state as a whole, including its security, constitutional amendment, and its own history, starting with Yasukuni and the war dead. This was the newly emerged attitude and identity toward the Japanese nation among the public. Therefore, reformers, including Koizumi, were required to pay attention to this change in order to build a national consensus for the implementation and continuation of neoliberal reforms under a new electoral system, which reflected the changeable and fluctuating opinions of the public.

5.5.3. Koizumi's Populism, Economic Nationalism and Cultural Nationalism in Japan since 2001

Hashimoto's successor Obuchi Keizo reversed Hashimoto's structural reforms with 'Obuchinomics', that is, traditional Keynesian economic stimulus policies.¹⁵⁷ Helped by the 'petit-IT' boom, Obuchinomics achieved a temporary economic recovery. However, the expansion of public spending piled up an alarming level of public debt, and the eventual collapse of information technology (IT) market slowed economic recovery.¹⁵⁸ Among the public, a pessimistic view of Japan's economy dominated, and once again the public started to demand economic and structural reforms.¹⁵⁹ In such a situation, in April 2001 Koizumi Junichiro was elected as Prime Minister with over 80 percent support.

Koizumi was different from previous prime ministers from the LDP, including the reformers Nakasone and Hashimoto, in a number of ways. First of all, Koizumi did not have his own faction, although he belonged to former Prime Minister Mori's

¹⁵⁵ Shibuichi, pp. 197-215.

¹⁵⁶ The numbers of copies of each magazine are monthly average between September 2006 to August 2007. Data from Japan Magazine Association, http://www.j-magazine.or.jp/data_001/main_a.html.

¹⁵⁷ Matsubara, p.51.

¹⁵⁸ Matsubara, p.51.

¹⁵⁹ Kikkawa 2005, pp. 88-9.

faction.¹⁶⁰ Koizumi also did not belong to any interest groups (zoku), such as construction, postal, and agricultural groups, so he was freed from the LDP post-war ‘tradition’ of “distributing benefits among special interests”.¹⁶¹ When he was elected prime minister, he did not have special support as Nakasone and Hashimoto had from particular factional and interest groups. Thus, for Koizumi the weight and importance of public popularity was heavier than for other prime ministers, and so during his administration Koizumi was required to keep a careful eye on his popularity among the public. This is why scholars and commentators regard Koizumi’s style of politics as populism.¹⁶²

Koizumi’s Politics: The Will of the People and Economic Nationalism

Initially Koizumi created a narrative of the necessity of neoliberal structural reforms for economic recovery, and he appealed with this narrative to the public. Koizumi declared “structural reforms with no sacred cows”, and promised radical neoliberal governmental and economic reforms.¹⁶³ Koizumi announced a number of his reform plans, including the reduction of new government debt, pushing banks “into disposing of their bad loans within two or three years” and “cut[ting] off the life-support system that has allowed weak firms and inefficient sectors to avoid painful restructuring”.¹⁶⁴ During his more than six years in office, Koizumi continued to use a number of symbolic slogans to appeal to the public for progressing neoliberal reform. For instance, to appeal to the public and justify the necessity of neoliberal economic reforms Koizumi used this following slogan on numerous occasions: ‘without reform no economic development’ (kaikaku nakushite seicho nashi).¹⁶⁵ Koizumi also used the slogan, ‘without pain, no reform’ (itaminakushite kaikakunashi), to try to convince people implicitly that although some people would lose their current financial benefits in the short term (for some people permanently), these pains were unavoidable if the country was to benefit financially in the long term from his neoliberal reforms.¹⁶⁶ Another important slogan used by Koizumi was ‘Our enemies are the vested interest groups within’ (teiko-seiryoku). While Koizumi used special economic councils to represent the interests of transnationalized groups and foreign countries, especially the

¹⁶⁰ Hideo Otake, *Koizumi Junichiro popurizumu no kenkyu* (research on Populist Junichiro Koizumi) (Tokyo, 2006), p. 160.

¹⁶¹ Takeshi Sasaki, *Koizumi’s Legacy and the Next Administration’s Tasks*, Japan Echo, December, 2006, p. 16.

¹⁶² Otake 2006, pp. 159-60. Kikkawa 2005, p. 89.

¹⁶³ Leonard J. Schoppa, *Japan, the Reluctant Reformer*, Foreign Affairs, 2001.

¹⁶⁴ Schoppa 2001, p. 17.

¹⁶⁵ Shibuich, p. 210.

¹⁶⁶ Shibuich, p. 210.

US, Koizumi used his slogans as mobilising rhetoric and political performance, in order to pit ordinary citizens against old interest groups inside the LDP.¹⁶⁷

Performance of Koizumi Administration's Economic Reform

For economic and structural reforms, Koizumi used several special councils directly under his cabinet. For financial reform and liberalisation, the Japan Investment Commission (JIC) chaired by Koizumi was used to promote his reforms.¹⁶⁸ The JIC consisted not only of Japanese economists and scholars, but also American economists, scholars and business executives.¹⁶⁹ The JIC argued for and provided various plans for reforms related to finance in areas from law to accounting and the tax system, and the JIC played the role of 'commander' of related ministries, including the Ministry of Law, the Ministry of Finance and the Agency of Financial Affairs.¹⁷⁰

In terms of structural reforms, Koizumi strengthened the Economic and Financial Prudential Council (EFPC) with four experts from the private sector, namely Jiro Ushio from Japan's Association of Business Executive (keizaidoyukai), Okuda who was the president of Japan's Business Association and former chief executive officer (CEO) of Toyota (Keidanren), Masaaki Honma (University of Osaka), and Hiroshi Yoshikawa (University of Tokyo).¹⁷¹ Koizumi appointed Heizo Takenaka, an adherent of the neoliberal economy who had been Koizumi's friend for ten years, to be the minister in charge of the EFPC, and in the first meeting of the EFPC Koizumi stated that he would take strong initiative himself.¹⁷² The EFPC had a variety of public and private structural reforms in its initial plan, namely the stabilization of the financial system through market-oriented reforms, the limiting of new issuance of government bonds under 30 trillion yen, public spending reform, social security reform, and the decentralization of some of the functions of the government.¹⁷³ Although Koizumi took a strong stance in both the JIC and EFPC, Koizumi did not have a blueprint for the entire reforms except for the privatisation of the postal office.¹⁷⁴ Therefore, under strong international pressure (mainly from the US), financial reforms and liberalisation were implemented, thoroughly, but on the other hand a number of public sector reforms often resulted in a compromise between vested interest groups, groups that he was supposed to be against inside the LDP.¹⁷⁵

¹⁶⁷ Otake 2006, p. 5.

¹⁶⁸ Matsubara, p. 104.

¹⁶⁹ Matsubara, p. 104.

¹⁷⁰ Matsubara, p. 104.

¹⁷¹ Otake 2006, pp. 105-111.

¹⁷² Otake 2006, pp. 105-111.

¹⁷³ Otake 2006, pp. 105-111.

¹⁷⁴ Sasaki, p. 19.

¹⁷⁵ Otake 2006, pp. 74-6. Kikkawa 2005, pp. 142-6.

That is, in terms of political bargaining over economic and structural reforms, Koizumi worked on the framework of LDP faction politics. Although Koizumi declared that he would crack LDP and its factional politics, he never tried to create a new party or undermine factions. Instead, Koizumi's political bargaining was often described as 'performance' (Koizumi gekijyo), and his 'performance' was organized on the LDP's factional vs. faction framework rather than on competition with opposition parties, specifically the Democratic Party of Japan, over political and economic policies.¹⁷⁶ For instance, his landslide victory in the Lower House election in 2005 was brought about not only by Koizumi's simplification of electoral issues relating to the privatization of the postal office, but also by Koizumi's 'strategy' to show his 'reformist' image by attacking vested interest groups inside the LDP, specifically the largest faction loyal to former Prime Minister Hashimoto Ryutarō.¹⁷⁷

Diplomacy and Politics and Koizumi's Cultural Nationalism

In terms of diplomacy, Koizumi originally only pursued 'traditional' diplomatic issues concerning Japan or the LDP, including the normalization of relationships with North Korea, gaining a permanent seat for Japan on the UN Security Council, and issues involving the East Asian community.¹⁷⁸ In dealing with these issues Koizumi ostensibly showed a strong initiative. For instance, he visited Pyongyang twice, made a speech at the UN declaring Japan's determination to gain a permanent seat, and accelerated FTA with ASEAN countries. However, Koizumi's actions were more geared towards promoting his popularity among the public as Koizumi knew that he did not have a strong factional base inside his party. For example, Koizumi declared that he would visit the Yasukuni shrine as part of his platform as the LDP candidate for the residency. One of the most important reasons for his yearly visits to the Yasukuni shrine was to gain the Japan Association of Bereaved Families (JABF's) support for the election of prime minister, but another reason was that there was strong public support (initially public support reached 80 percent and public support continued at an average of just over 40 percent).¹⁷⁹ Although Koizumi visited the Yasukuni shrine once a year during his administration, there was no strong opposition from the public, "only leftist mass media and intellectuals were vocal in denouncing Koizumi".¹⁸⁰ Although the Asahishinbun Newspaper's opinion poll on April 2004 showed mixed feelings among

¹⁷⁶ Otake 2006, p. 7.

¹⁷⁷ Otake 2006, p. 7.

¹⁷⁸ Hosoya, p. 18.

¹⁷⁹ Shibuichi, p. 210.

¹⁸⁰ Shibuichi, p. 210.

the public (42 percent supported and 39 percent opposed the visit), every opinion poll just after the final visit of Koizumi on the 15th of August, the controversial day, in 2006 showed that a majority of Japanese people supported Koizumi's visit.¹⁸¹ Moreover, the opinion poll held by a NHK TV program showed that over 72 percent of young respondents (20s and 30s) supported Koizumi's visit.¹⁸² There was a significant rise in anti-Japanese demonstration in China and Korea, like the heckling of the Japanese soccer team and its supporters during Asian Cup matches in China, and anti-Japan demonstrations in China's major cities in 2005.¹⁸³ In reaction to these anti-Japanese demonstrations, the Japanese public, especially the Japanese youth, first felt worried and fearful, but then began to exhibit hostility towards those two countries.¹⁸⁴ For example, in the Yomiurishinbun newspaper's opinion poll on the 10th of August 2006, 67 percent of people answered that they cannot trust China.¹⁸⁵

As far as dealing with North Korean issues was concerned, Koizumi changed his initial plan to adhere to public opinions. For a long time normalising relationship with North Korea was one of the most important political challenges facing LDP and JSD politicians.¹⁸⁶ Initially Koizumi followed the tradition. Koizumi visited North Korea, and signed the Japan-Democratic People's Republic of Korea (DPRK) Pyongyang Declaration to normalise Japan's relationship with North Korea. However, once Kim Jong-il admitted North Korea's involvement in the abduction of Japanese citizens, Japanese people resented North Korea and began to oppose the normalisation of Japan's relationship with North Korea. Faced with strong anger and resentment from Japanese constituents, Koizumi ostensibly shifted his stance towards North Korea from the soft to hard line.¹⁸⁷ Koizumi assigned Shinzō Abe, who consistently took a hard stance against North Korea to Secretary-General of the LDP in the Cabinet reshuffle on September 2003.¹⁸⁸ However, Koizumi kept an indecisive stance towards North Korean issues,

¹⁸¹ Yomiurishinbun newspaper (16th August 2006): 53 percent supported and 39 percent opposed, Mainichishinbun newspaper (16th August 2006): 50 percent support and 46 percent opposed, Kyōdō News (16th August 2006): 51.5 percent supported and 41.8 percent opposed.

¹⁸² Nihonno Korekara (The future of Japan) <http://www.nhk.or.jp/korekara/>.

¹⁸³ Nobuhiro Hiwatari, Japan in 2004: 'Courageous' Koizumi carries on, Asia Survey, Jan/Feb 2005, Vol. 45, Iss. 1, p. 50, Sasada, p. 115.

¹⁸⁴ Hiwatari, p. 50.

¹⁸⁵ Yomiurishinbun Newspaper, 10th August, 2006.

¹⁸⁶ There are numbers of books treating this issue. For example Kobayashi Ichihiko's "Kitachosen Riken no Shinso" (Truth of interest over normalisation of the country relation with North Korea), Takarajima (2003).

¹⁸⁷ In a survey conducted by the Ministry of Foreign Affairs, around two-thirds of respondents showed interest in North Korea: 90% in the abductees issues; over 60% on the nuclear development issue; over 50% on missile issue, and so on (Hiwatari p.50).

¹⁸⁸ This affected to improve his public approval (Yomiurishinbun newspaper, 24 September 2003: from 52.2 to 63.3).

such as abduction and nuclear bombs.¹⁸⁹ Koizumi kept seeking a way of normalising the relationship with North Korea during his administration, and Koizumi never implemented economic sanctions against North Korea, although the Diet passed two bills that enabled government to implement economic sanctions against North Korea, and National Association for the Rescue of Japanese Kidnapped by North Korea (NRKN) formed by the family members of the abductees continuously demanded that Koizumi implement economic sanctions.¹⁹⁰

In terms of security and defence, after the attacks against the US on September 11, 2001, Japan experienced a number of changes in its defence and also in its overseas deployment of SDFJ under the Koizumi administration. Although there was some criticism that Koizumi was eager to strengthen “Japan’s alliance with the US symbolized by his close personal relations with President Bush”,¹⁹¹ unlike the strong controversy over the bilateral security treaty with the US during the post-war period and also the SDFJ’s peace keeping mission in the early 1990s, the Japanese showed a more supportive stance towards the SDFJ and the amendment to the bilateral security treaty with the US. This was largely due to the actual security concerns posed by Japan’s neighbours, specifically China’s rapid expansion of its military, and a series of North Korean missile tests.¹⁹²

Koizumi’s Popularity and Economic and Cultural Nationalism

It is even clearer how Koizumi collected support from the public or maintain relatively high level of approval ratings when one compares his public approval ratings with what he did under his administration. In general, the public approval rate of Koizumi administration stands out among prime ministers who took their office after 1990. As the table 1 shows, Koizumi administration marked the highest approval rate among them. Koizumi’s average approval rate was second to the Hosokawa administration (48.8 percent for Koizumi, 59 percent for Hosokawa), but Koizumi was in office 5 times longer than Hosokawa.

¹⁸⁹ You Uchiyama, *Koizumiseiken* (Koizumi Administration) (Tokyo, 2007), p. 158.

¹⁹⁰ Uchiyama, p. 155, National Association for the Rescue of Japanese Kidnapped by North Korea (NRKN) <http://www.sukuukai.jp/houkoku/log/200508/20050824.htm>.

¹⁹¹ Hiwatari, p. 52.

¹⁹² One survey found a significant increase in the Japanese people’s threat perception, in 1975, 43.6 percent of respondents believed that Japan faced some risk of war, while 34.3 percent said Japan faced no such risk. By 2005, 77.6 percent said they perceived some risk of war, while only 16.5 percent said they did not. (Sasada, p. 115).

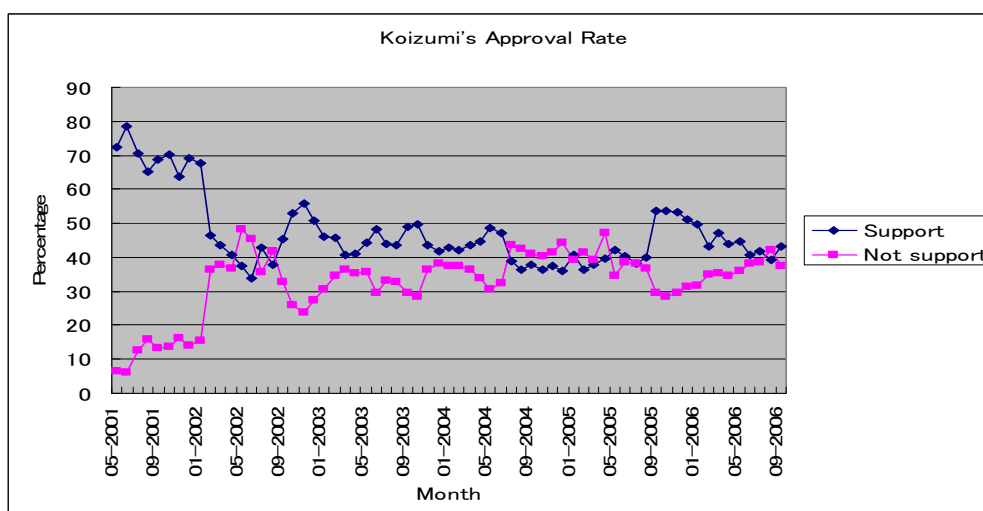
Kaifu Administration (10.1989-11.1991)			
	approval	disapproval	not sure
Average	43.1	31.6	25.3
Lowest	27.5	20	19.7
Highest	54.2	39.7	38.6
Hosokawa Administration (08.1993-04.1994)			
	approval	disapproval	not sure
Average	59	19.9	21.1
Lowest	46.2	11.1	19.7
Highest	67.4	33.2	26.1
Hashimoto Administration (01.1996-07.1998)			
	approval	disapproval	not sure
Average	38.1	37.3	24.6
Lowest	23.4	20.3	19.9
Highest	46.8	56.7	32.9
Mori Administration (04.2000-04.2001)			
	approval	disapproval	not sure
Average	19.8	56.1	24.1
Lowest	9.6	20.1	14.1
Highest	33.3	74.7	46.6

Miyazawa Administration (11.1991-08.1993)			
	approval	disapproval	not sure
Average	25.6	52.6	21.8
Lowest	10.3	21.2	13.8
Highest	47.6	75.8	31.2
Murayama Administration (06.1994-01.1996)			
	approval	disapproval	not sure
Average	34.9	39.2	25.9
Lowest	28.1	30.4	23.1
Highest	41.9	48	31
Obuchi Administration (07.1998-04.2000)			
	approval	disapproval	not sure
Average	33.2	39.2	27.6
Lowest	19.4	26.5	22.7
Highest	47.6	54.7	31.1
Koizumi Administration (04.2001-)			
	approval	disapproval	not sure
Average	48.8	30.9	20.3
Lowest	34	6	15.5
Highest	78.4	45.2	23.8

Table 1: Approval Rate of Japanese Administrations from 1989¹⁹³

Graph 3 below shows Koizumi's approval rates during his administration. This information of the approval rates was collected by Jiji Press, and the approval rate is mainly used with other newspapers' opinion polls about Koizumi administration for evaluation of support for Koizumi's economic and cultural nationalism in this thesis.

¹⁹³ Created from Maeda, p. 5. Approval rate of Tsutomu Hata was omitted, because his administration continued only two month.



Graph 3: Public Approval Rate of Koizumi Administration¹⁹⁴

The Koizumi administration started with record high public support, nearly 80% in opinion polls, on the 26th of April 2001. During 2001 public support remained stable at around 70%. This high support rate in 2001 was maintained by continuous high expectations shared among the Japanese population and by Koizumi's willingness for fiscal reform in the public sector, including the privatization of Japan Highway. However, his record high support dropped abruptly in the opinion polls in February 2002. This was mainly caused by Tanaka Makiko's (popular Minister of Foreign Affairs) dismissal. Her dismissal was as the head of the Ministry of Foreign Affairs (MFA) to take responsibility for a political scandal over the misappropriation of a secret fund of the MFA and its illegal use by Suzuki Muneo (a member of the lower Diet), one of the rare spokespeople for an interest group in Foreign Affairs.¹⁹⁵ The popularity of the administration was 67.8 % in the opinion polls in January 2002, but then decreased by over 20 % to reach 46.5 % in the following month (marked 47 % in the opinion poll held by Yomiuri Newspaper soon after Tanaka's dismissal).

Koizumi's popularity kept decreasing until his sudden and surprise visit to North Korea on the 17th of September 2002.¹⁹⁶ An opinion poll soon after his visit showed a significant increase in support. Public support jumped from 37.9 % in August 2002 to 45.4 % in September 2002. Koizumi assigned Takenaka to the post of financial supervisory minister in his cabinet reshuffle two weeks after his surprise visit to North Korea in September 2002. As a 'specific remedy' for the prolonged banking crisis

¹⁹⁴ Created from Kyodo news agencies opinion polls, and from Maeda.

¹⁹⁵ Otake 2006, p. 261.

¹⁹⁶ Otake 2006, p. 262.

Takenaka attempted to implement a ‘market oriented’ policy, a ‘hard landing’ solution, including a abrupt reduction of NPL, and a closure of unprofitable banks.¹⁹⁷ Between October and December 2002, Koizumi’s support rate stayed constant at just over 50 %. The return of five abductees from North Korea in October 2002 also worked positively. Coupled with Takenaka’s hard-handed policy, market value accounting was implemented from March 2003.

As a result of the introduction of the market value accounting, Japanese banks suffered from a downturn in the stock market to meet BIS regulations.¹⁹⁸ Takenaka’s tough stance towards banks actually worsened the banking crisis, and a serious credit crunch hit Japanese industries.¹⁹⁹ Economic conditions were badly damaged (the Nikkei index reached its lowest price in the post Bubble Economy, 7607 yen on the 28th of April for instance), and Koizumi’s popularity also decreased from the beginning of 2003. Koizumi’s popularity dropped by more than 15 % from 55.9 in November 2002 to reach 40 % in March 2003, and then remained at under 45% until May 2003. In May 2003, a further deterioration of the banking sector was expected to become a crisis, but was prevented by the provision of public funds to the banks.²⁰⁰ Koizumi’s support temporarily increased in May and June 2003. The opinion poll by Yomiurishinbun in May 2003 showed that 65.8 percent of people disapproved of Koizumi’s economic policy.²⁰¹ The opinion poll in September in 2003 showed that 54.7 percent of the people thought that Koizumi should change his economic policy.²⁰²

In the previous analysis and discussion in this thesis, it is argued that the cultural nationalism could work to mask the social problems created by the implementation of neoliberal reforms, and to “glue” social differences created by the implementation of neoliberal reforms. However, although Koizumi visited North Korea for a second time and more of the abductees returned to Japan in May 2004, his support rate continued to decrease. His support decreased steadily from 49.6% in an opinion poll of September 2003 to 35.6 % in December 2004, and then at the turn of 2005, his support rate remained at around 40 %. In an opinion poll in March 2004, 84 percent of the people answered that they did not feel Japan’s economy was recovering, and 60 percent of the people answered that Koizumi’s reforms were not effective.²⁰³ Between July 2004 and May 2005 more people disapproved of his performance than those who approved of his

¹⁹⁷ Hiwatari, p. 45.

¹⁹⁸ Kikkawa 2005, chapter 2.

¹⁹⁹ Kikkawa 2005, p. 143.

²⁰⁰ Kikkawa 2005, p. 143.

²⁰¹ Yomiurishinbun News paper, 13th May 2003.

²⁰² Yomiurishinbun News paper, 24th September 2003.

²⁰³ Yomiurishinbun News paper, 23rd March 2004.

performance. Moreover, Koizumi's public support went down in the election of the lower Diet in September 2005.

Part of the explanation for this lies in the fact that, while Japan's GDP growth steadily recovered from 2002, unlike previous economic recoveries under the post-war economic system, ordinary Japanese people did not financially benefit.²⁰⁴ As mentioned in the previous section on Japan's neoliberal reform, the economic recovery from 2002 was achieved by the export growth in the manufacturing sector and cost-cutting, especially labour costs with little help of neoliberalisation. Thus, it was different from reformers' affirmations that liberalisation and deregulation promoted the shift from uncompetitive manufacturing sectors to competitive sectors, including finance and service industries. Rather, the conventional manufacturing sector increased its competitiveness in the global market and played a central role in the economic recovery from 2002. In the meantime, the interests and benefits of ordinary people were sacrificed for economic recovery. As a number of scholars show, the gap between the rich and poor has been increasing at an unprecedented pace ever since.²⁰⁵ Therefore, a main cause of the steady decrease in Koizumi's popularity can be considered as due to Koizumi's economic 'mismanagement', especially in regard to the prolonged banking crisis, and the steady decrease in his popularity indicates that cultural nationalism cannot be always workable to mask the social problems caused by the implementation of neoliberal reforms.

However, after this social and economic gap became a main topic of public debate, Koizumi and his supporters changed their rhetoric, insisting that this increasing gap was an issue of 'self-responsibility'. For instance, although research shows that 56 percent of respondents acknowledged that Koizumi's reform was the main cause of the social gap, in the Diet Koizumi stated continuously that there were no fixed social strata (upper and lower), and what was the important fruit of the reform was that every individual had an equal opportunity.²⁰⁶ Koizumi deployed the elements of neoliberalism again to insist on the importance of the continuation of neoliberal reforms and recall the narrative that the implementation of neoliberal reforms is the right path to economic recovery. Koizumi continued with his privatisation of the Post Office. In September 2004, coinciding with Takenaka's appointment as minister overseeing the

²⁰⁴ Matsubara, pp. 35-45. Kikkawa 2005, pp. 132-8.

²⁰⁵ Yoshio Higuchi, *Nihonnoshotokukakusato Syakaikaisou* (Income gap and Social Strata in Japan) (Tokyo, 2002), Masahiro Ymada, *Kiboukakusasyakai* (Society of Expectation Gap) (Tokyo, 2004), Atsushi Miura, *Karyushyakai Aratanakaisousyudanno shyutugen* (Society of Lower Strata, Emergence of New Social Class) (Tokyo, 2005).

²⁰⁶ Yomiurishinbun News paper, <http://www.yomiuri.co.jp/feature/fe6100/news/20060313it13.htm>.

Post Office privatisation, the Council on Economic and Fiscal Policy (CEFP) “released a long-awaited report that served as the basis for legislation” for the privatisation.²⁰⁷ In the New Year’s address in 2005, Koizumi declared that he would submit his privatisation bill during this term of the Diet.²⁰⁸ Despite his strong appeals to the public, “in a public opinion survey conducted in spring 2005, only 2-7% of the respondents agreed that privatization should be at the top of the government agenda, and an earlier poll revealed that only 3 % of the respondents agreed with the bill.”²⁰⁹

However, after the privatisation bill was defeated by 125 to 108 in the Upper House on 9 August 2005, Koizumi responded by calling the election of the Lower House. That night Koizumi likened himself to Galileo and claimed that just as the heliocentric theory of Galileo was not believed at first, neoliberal reforms seemed to be not necessary and important, but actually they were necessary for economic recovery.²¹⁰ He directly appealed to Japanese constituents regarding the importance of the privatisation.²¹¹ In order to make the privatisation realised, first Koizumi did not nominate the LDP members who opposed the privatisation bill as the LDP’s candidates, and sent the LDP candidates who supported the bill to those opponents’ electoral districts as ‘assassins’ to defeat the privatisation bill’s opponents within the LDP.²¹² Then, Koizumi assigned Hiroshige Seko, a LDP member of the House of Council, who studied mass communication in the US, to be press officer.²¹³ Seko succeeded to make privatisation the central issue of this election and to create a reformer image of Koizumi, in which opponents were treated as ‘villains’.²¹⁴ The tone of the mass media was favourable to the LDP, and their TV reports of the LDP’s election campaign achieved high audience rates.²¹⁵ As a consequence, Koizumi’s support rate rose abruptly from 36.6 % in August 2005 to 53.5 % in September 2005. Moreover, “a Kyodo New’s

²⁰⁷ Patricia L. Maclachlan, *Storming the Castle: The Battle for Postal Reform in Japan*, *Social Science Japan Journal*, Vol. 9, No. 1, 2006, p. 12. The CEFP report advocated the breakup of Japan Post into four joint-stock companies, one each for postal savings, insurance, mail collection and delivery and postal network operations. All four entities were to be overseen by a government holding company. The holding company would then gradually subject the postal savings, and insurance companies to private sector control by selling its shares by 2017; its stake in the mail collection and delivery and network operations company would be maintained (CEFP 2004; 6) cited in Maclachlan, p. 12.

²⁰⁸ Otake 2006, p. 267.

²⁰⁹ *The Japan Times*, 7 and 12 March 2005, Maclachlan, p. 13.

²¹⁰ Takenaka, p. 232.

²¹¹ Takenaka, p. 232.

²¹² Takenaka, p. 232; Maclachlan, p. 14. Koizumi mainly nominated young ladies as ‘assassins’. For instance, Yuriko Koike, former Minister of Environment was sent to No. 10 electoral district in Tokyo, base of Kouki Kobayashi who was the main member of opposition group in the LDP.

²¹³ Takenaka, p. 235.

²¹⁴ Takenaka, p. 235.

²¹⁵ Otake 2006, ch. 2.

survey conducted immediately after Koizumi dissolved the Lower House of the Diet revealed that 51.6 % of eligible voters supported Koizumi's proposal for postal privatization".²¹⁶

Although in the election on 11 September 2005, the LDP/Komeito (a coalition party) captured a combined total of 327 seats, as Maclachlan and Otake argue, it was quite doubtful whether ordinary Japanese understood the reasons for and necessity of the privatisation of the post office. Koizumi's 'theatre' politics attracted constituents by using populist techniques. For instance, Koizumi started an inter-party dispute between reformers (Koizumi side) and opponents (interest groups), so that the public focused on the dispute, rather than on the privatisation of the post office.²¹⁷ Opponents were disciplined from the LDP, and candidates who had voted against Koizumi were refused the LDP's official electoral endorsement. The media, including national news papers and TV stations reported Koizumi's drama-like politics every day, and their comments on postal privatisation supported Koizumi rather than ask meaningful questions about privatisation, such as why and how.²¹⁸

The changes in Koizumi's popularity and support for his policies taken together with cultural shifts reflected in the media and opinion polls are consistent with the argument that cultural nationalism helped maintain support for a government implementing neoliberalisation. The sentiments attached to the nation, including feelings of the importance of Japanese culture and security, were successfully mobilised by Koizumi. In this way, cultural nationalism could provide the 'glue' that can counteract the increase in social insecurity and inequality generated by neoliberalisation. However, Koizumi has also used his political performance style to revise what is meant by Japanese culture, in a way that is congruent with neoliberalisation, when he asserted that the increased social and income gap was a question of self-responsibility. To the degree that the idea of self-responsibility (as opposed to social solidarity or support) comes to be seen as part of, or compatible with, Japanese culture, the ability to mobilise cultural nationalism to continue to enable neoliberalisation against the economic interests of much of the population will be strengthened.

²¹⁶ The Japan Times, 10 August 2005.

²¹⁷ Otake, pp. 138-148.

²¹⁸ Otake 2006, pp. 138-148.

Chapter 6: Summary and Conclusion

6.1. Summary

It has been argued that neoliberal financial reform and financialisation are the most fundamental and consequential aspects of neoliberalisation. One set of effects is political: they generate a set of transnationalised societal actors who benefit from and support further neoliberalisation. However, neoliberal reforms are not in the interests of others whose support politicians need if they are to stay in power and implement further neoliberalisation. Economic and cultural nationalism thus become important instruments to maintain legitimacy in this situation and can be expected to be actively fostered by neoliberalising politicians. Since nationalism can be expressed as the will of the people, nationalism can provide the legitimizing goal and “glue” that can counteract the increase in social insecurity and inequality generated by neoliberalisation. Neoliberalism’s negative effects are also more likely to be politically accepted if it can be linked to economic nationalism, in the sense of people’s commitment to the economic survival or pride of the nation. The paradox of this is that neoliberalisation at the same time decreases national economic autonomy.

We observed the case of Japan to see whether it can be actually suggested that economic and cultural nationalisms were seen in neoliberalisation in Japan. Neoliberal reforms were implemented in Japan from the latter half of the 1980s. In the early 1990s Japan experienced various difficulties and crisis. The collapse of the bubble economy occurred in early 1990, and Japan’s economy was hurt severely by it. A number of fiscal stimulus packages and policies were implemented soon after the collapse, but Japan did not fully recover from the aftermath of the bubble economy. The failure of the economic recovery policies was recognized by the elites as the ‘end’ of the Japanese post-war economic system. The collapse of the bubble economy and its aftermath also created an identity crisis among the Japanese. Then, the Japanese population started to seek more seriously a way of recovering from the collapse of the bubble economy. With this nationalistic sentiment among the Japanese public, the Japanese population was united by the economic nationalism. Mass media were filled with the reformers’ opinions, in which the Japanese post-war economic system was treated as an obstacle to the recovery and neoliberal economic reforms were required for Japan’s economic recovery.

There was a feeling among the Japanese public that neoliberal reforms were crucial for Japan’s economic recovery and its bright future. A variety of the people

expressed their opinions and feelings that the implementation of neoliberal reforms was necessary and the opinions and feelings became accepted as the will of the people. This can be seen through high public approval rates of reformer's party. From the latter half of the 1990s, most of the political parties, including conservative LDP, proclaimed the importance of neoliberal reforms and their plan of the reforms. In the general election of House of Representative in 1996, the LDP which declared neoliberal administrative and structural reforms as platform of the election, collected nearly the majority of the House of Representative, and the second largest party, NPP, also collected over 150 members. This strong support backed reformer Hashimoto, and he implemented a number of neoliberal reforms, including radical financial reform. However, once neoliberal reforms slowed down the economic recovery and brought financial crisis, economic nationalism could not function in the same way. This was reflected in the public approval ratings of Hashimoto as well. Despite his strong initiative for neoliberal reforms and a number of achievements, Hashimoto lost public support and his reform was thwarted. The Japanese people began to demand a conventional economic stimulus package. It can be said that the ideology of the economic nationalism could not stimulate the sentiment of belonging to a nation that would work to unite the people to be supportive for the neoliberal reforms.

Hashimoto's successor Obuchi implemented traditional Keynesian economic stimulus policies. Obuchi's approval rates increased steadily alongside of economic recovery, but he failed to bring Japan's economy to recovery. Again, Obuchi's failure in economic policy coupled with other issues, including historical disputes with neighboring countries and domestic and international security issues, created a widespread national consensus, in which the people became to believe that fundamental reforms were necessary to salvage Japanese nation. In terms of the economy, they started to seek radical and fundamental reforms for Japan's future. In terms of security and Japan's relationship with neighbouring countries, a national attitude and feelings were formed through the experience of disputes with these countries, and in the process comments and ideology of conservatives achieved popularity. This sentiment among the Japanese public seemed further stimulated and reinforced with economic and cultural nationalisms. The opinions and feelings stimulated by economic and cultural nationalisms can be observed through the initial high expectation for Prime Minister Junichiro Koizumi, who declared the implementation of neoliberal reforms and the visit to the Yasukuni shrine, one of the central figures of diplomatic dispute and national pride. Koizumi achieved a record high approval rate, over 80 percent support, from the public. Koizumi continued with neoliberal reforms riding on a wave of increased

nationalistic sentiment among the population in economic and non-economic issues. Koizumi continuously used his several slogans, like “kaikakunakushite seichounashi” (without reform, no economic development), to formulate economic nationalistic sentiment that could work to unite the people. In the process of Koizumi’s neoliberal reform, the social and income gap was widened, although Japan’s economy showed a steady recovery from 2002. However, unlike Hashimoto, Koizumi continued to enjoy public support. Koizumi’s ‘skillful’ uses of cultural nationalism, including two times surprise visits to North Korea, annual visit to the Yasukuni shrine, worked to unite the people or at least to show a different target while implementing neoliberal reforms. Koizumi succeeded in implementing neoliberal reforms by uniting people with mixed implementation of economic and cultural nationalism, although Japan’s economic recovery produced significant social and income gaps among the population.

6.2. Contributions to literature on the subject

In the previous arguments over neoliberalism and neoliberalisation, reasons why neoliberal economic reforms were widely accepted by the people in a nation-state were not well explained. This thesis, by focusing on the role of nationalism, provides a possible explanation for the question why not only non-transnationalised interest groups, but also ordinary people became willing to implement neoliberal reforms, although the implementation might undermine their economic interest.

The previous arguments over neoliberalism and neoliberalisation did not provide a clear explanation of possible causes and reasons why neoliberal reforms were implemented into nation-states globally. Therefore, neoliberalisation is often understood and argued as the activities and outcomes of the implementation of neoliberal ideologies into economic, social and political human activities. However, as recent scholars, including Harvey, Tickell and Peck, point out, there are some inconsistencies in neoliberal theories and their applications. In this thesis I focused on this point, and found out a possible cause and origin of current ongoing neoliberalisation, that is, the emergence and operation of the global financial markets. Neoliberal theories are often used to justify the creation of the global financial market, but the operation of these financial markets creates pressures for the neoliberal reforms in other sectors.

This thesis also explored how neoliberal reforms were implemented in a nation-state. Unlike neoliberal theories and economists’ arguments that tend to underestimate states’ role and the influence of the globalised economy, states still play a central role in neoliberalisation. However, with neoliberalisation the role of state

changed significantly. As Robinson argues, the emergence of a transnational class made the situation more complicated. Some industries in nation-states, like the financial sector and large manufacturers, shifted their capital accumulation process from a national to a global base. States themselves are no longer free from the influence of transnational institutions and groups, including the WTO, and their domestic policies became an object of the influences of these transnational groups and institutions. In a nation-state, some interests groups remained domestically based, so the state became the battleground of contested interests of both transnationalised and non-transnationalised groups. Previous arguments of neoliberalisation did not pay much attention to the mechanisms of the implementation of neoliberal reforms while national interests are contested. Therefore, this thesis can contribute to the understanding of the politics of implementing neoliberal reforms.

Finally, this thesis used Japan as case study. Although a number of studies have been produced of neoliberalisation in the West, including the US, the UK and EU, there are few of them about Japan. In this thesis, first, I explored the way in which the Japanese economy was organised during the post-war period, and then how the post-war Japanese economic system was changed and modified by neoliberalisation. Another important point of the case study is the detailed analysis of the post-war Japanese nationalism. Again, few studies have evaluated post-war Japanese nationalism, especially the nationalism since the implementation of neoliberal reforms during the early 1980s. The thesis provided an account of Japanese nationalism since 1980s, while also substantiating the argument concerning its role as a political support for neoliberalisation.

6.3. Indications for further research

Among the areas covered in the thesis, the section of the analysis of Japanese nationalism especially the analysis over recent nationalism in Japan is bit weak. Since I was not in Japan when I analysed the past nationalism of Japan, most of the materials used in this thesis are secondly resources. To analyse nationalism in the 1980s and the 1990s I rely on scholars' arguments. To evaluate more recent nationalism under the Koizumi administration, I also rely on scholars' arguments and newspapers' opinion polls rather than analysing and evaluating first resources, including taking surveys by myself and analysing TV programmes, their audience ratings, Medias' commercials and advertisements. Therefore, for the improvement of this section, it is possible to conduct the research over first materials to provide more accurate details that can make the

relationships between cultural and economic nationalism and neoliberalisation in Japan clearer.

Moreover, there are some other possible ways to explain the high political support for Koizumi's reforms from the public. For instance, Japanese people might have supported Koizumi, because there was no alternative for them to chose, they felt that Koizumi was the person who can be trusted or simply they kept high expectation for Koizumi. To find out whether this thesis or the other explanations are correct, it is important to examine first materials, especially surveys.

For a Ph.D. or book-length study of this topic, it is possible to expand the argument section by section. The section of neoliberalisation can be improved by focusing more on global financial market, especially the mechanism of credit creation and nature of financial market, and it is possible to expand the research into the more detailed analyses of neoliberalisation in the U.K., the U.S. and Japan. If there is much more time, a greater number of scholars' arguments over nation and nationalism, and over neoliberalisation and nationalism can be reviewed and analysed. In the section of neoliberalisation in Japan, the post-war Japanese economic system can be argued in more detail, and the modification of the Japanese financial market and its effect on the economy whole can be described in more detail. Finally, in the section of the relationship between nationalism and neoliberalisation in Japan it is important to evaluate the first resources as mentioned above. Moreover, it would be useful and interesting if different countries are compared, including the U.K., the U.S. and Japan.

— **END** —

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