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PRIVILEGE PRESERVED

Crisis and Recovery in Japan

THE 2008 MELTDOWN of global finance hit Japan hard. To be sure, its banking system was fairly well insulated from the worst of the damage, but the subsequent worldwide recession took the Japanese economy down with it. The institutions of economic security that had bought political peace for a half-century began visibly crumbling, and the electorate responded by sweeping the ruling Liberal Democratic Party out of power for the first time since it was founded in 1955. And yet, a decade later, the LDP is back in charge with no serious political challenge on the horizon. The populism of right and left that has roiled Europe and the United States is nowhere to be seen and, while the economy may not be what it was in the days of the 'Japanese Miracle', it has not been in terribly bad shape either—particularly in contrast to its peer economies, Germany, France and Britain. This is remarkable considering that in 2011 Japan endured an earthquake-cum-tsunami that has been accounted the most expensive natural disaster ever, a cataclysm which sidelined the nuclear-power plants that had supplied a third of the country's energy requirements. What happened, or perhaps didn't happen, that allowed Japan to muddle through these manmade and natural disasters relatively unscathed—and relatively unchanged?

To answer that question, we should start by looking at the people who run Japan. In doing so, it may be instructive to bear in mind Orwell's comment about the UK upper crust:

One thing that has always shown that the English ruling class are *morally* fairly sound is that in time of war they are ready enough to get themselves killed . . . That could not happen if these people were the cynical scoundrels

that they are sometimes declared to be. It is important not to misunderstand their motives, or one cannot predict their actions. What is to be expected of them is not treachery or physical cowardice, but stupidity, unconscious sabotage, an infallible instinct for doing the wrong thing. They are not wicked, or not altogether wicked; they are merely unteachable.¹

Japan's ruling class—unlike its American, if not its European, counterparts—is still *morally* 'fairly sound'. Its members live materially comfortable lives, but they do not gin their country's politics and finance to divert rivers of money into their pockets. They do not revel in obscene displays of wealth; you will not find new clusters of matchstick towers in Tokyo, as you do in New York, from which the rich lord it over everyone else. Like upper-class parents everywhere, Japan's decision-makers obsess over the credentialing of their children, and shell out wads of yen for private tutoring and cram schools. But they cannot buy their kids' way through the official gates into the ruling elite by donations to the Law Faculty of the University of Tokyo. The youngster either passes the entrance examination or doesn't.² For the people who run Japan see themselves as genuine patriots and usually, they act like it. Many are direct descendants of the samurai who constituted Japan's *de jure* ruling class in the pre-modern era, and were effectively turned into bureaucrats by the Tokugawa Shogunate (1603–1867). With one notable break, bureaucrats have pretty much run the country ever since. 'Samurai' literally means 'one who serves', and today's samurai, if you will—bureaucrats in the elite ministries; senior executives in establishment banks and corporations—inherited the obsession with reputation and the contempt for flashy, commercial values that characterized their institutional—and, in many cases, biological—ancestors.³

¹ George Orwell, *The Lion and the Unicorn: Socialism and the English Genius*, London 1941.

² Nor is there any detour abroad that can get around these portals. Even scions of the dynasties that have largely controlled Japan's electoral politics since 1945—the Abes, Hatoyamas, Koizumis, Fukudas, Asos—have to go to college *in Japan*. Unlike their counterparts in the top ministries and the c-suites of establishment banks and corporations, they don't need degrees from the very best schools. Prime Minister Abe Shinzō, for example, graduated from Seikei University, favoured by rich kids who aren't quite smart enough to pass the University of Tokyo's entrance exams. But they do have to have degrees from Japanese universities. This helps explain why Japan's rulers, unlike their equivalents in China, India or the Middle East, do not send their progeny off to snooty Swiss or English boarding schools.

³ An interesting paper traces the survival of the samurai and those of the Meiji-era peerage into the upper reaches of the contemporary Japanese elite: Gregory Clark and Tatsuya Ishii, 'Social Mobility in Japan, 1864–2012: The Surprising Persistence of the Samurai', University of California, Davis, 2012.

The break in bureaucratic rule lasted from 1868, when a small group of disgruntled lower-ranking samurai from western Japan engineered a *coup d'état*, until the 1920s, when the last of them died off. During that period, these samurai-turned-oligarchs ran the country. Everyone knew who they were. They controlled the major political institutions—ministries, political parties, national legislature (the Diet), Army, Navy and police; together with their allies, they owned and ran most of the important economic institutions including the sprawling *zaibatsu* conglomerates. The oligarchs' passing led to the re-emergence of bureaucratic rule and murderous power struggles among competing bureaucracies. The victors were, predictably, bureaucracies with the means of coercion at their disposal: the Imperial Army and the Naimushō (Interior Ministry), which ran the police. But their triumph was not total. The Army never succeeded, for example, in bringing the Navy under its purview, with disastrous results for Japan's efforts in World War Two. Capital accumulation remained partly in private hands.

It took the twin blows of war-time devastation and US Occupation to complete the bureaucratization of the commanding heights of Japan's economy. By the late 1940s, the country's inherited wealth had largely been destroyed. What the US Air Force hadn't wiped out, American Occupation officials—in thrall to the unexamined notion that a capitalist-militarist alliance had led Japan to war—proceeded to expropriate through land reforms, abolition of the titled nobility and stripping the *zaibatsu* founding families of their holdings. But the elite's social capital remained intact—and, to this day, the people who constitute that elite bequeath their social capital through the habits they inculcate in their children: hard work, respect for education, disdain for ostentation—and palpable devotion to the national interest, as they conceive it. That helps explain why these high officials and company men own no bolt holes in Vancouver, Sydney or London; why they keep their money inside their country's banking system; why they would probably even still be 'ready enough', in Orwell's phrase, to get themselves (or their kids) killed, although they haven't been asked to do so for some 75 years now. They surrender their personal lives—family, hobbies—to what they understand is the good of their country, putting in long, gruelling hours in spartan offices for modest paychecks (albeit with the promise of comfort and prestige in their later years). That they confuse the interests of their class with those of their country hardly sets them apart from other elites, and doesn't make them 'morally unsound' or 'wicked'. It may, however, make them *unteachable*.

Though the US Occupation had destroyed the Japanese military and broken up the Naimushō, it left the economic bureaucracies—principally the Ministry of Finance and the Ministry of Munitions, renamed Ministry of International Trade and Industry—intact. With its control of the treasury and the collapse or destruction of so many competing power centres, the MOF ended up as the most powerful of them all. Economic methods that had been employed in bureaucrat-run colonial Manchuria in the 1930s were adapted to encompass much of the Japanese economy. Chief among these were the divorce of nominal ownership from managerial decision-making, state-organized credit-ordering via centralization of the banking system under close MOF supervision, and rationing of access to the American dollars needed for essential imports. The MOF moved to ensure that former *zaibatsu* owners could not re-assert control by the device of forcing households to disgorge shares and then lodging those shares with other companies and banks. The upshot of these cross-holdings was that companies and banks ended up ‘owning’ each other, which meant that no one really owned anything. It was under this institutional structure that the country emerged in the post-war period as an export-led manufacturing ‘miracle’, its rapid ascent up the value chain aided by the preferential access to US markets accorded to a front-line Cold War ally.⁴

A bureaucratic bulwark

The MOF’s power has never been total. It is not a Standing Committee or a politburo. It shares power with the other important ministries, with large established companies, with business lobbies such as the Keidanren (Federation of Economic Organizations) and with the LDP, formed in 1955 with CIA money to forestall a takeover by leftists of the

⁴ A key figure in cementing the relationship with the United States was Kishi Nobusuke, economic czar of colonial Manchuria, Minister of Munitions in the war-time cabinet of Tojo Hideki, prime minister in the late 1950s—and grandfather of the present prime minister, Abe Shinzō. Kishi, a good friend of the US Ambassador before the War, had been arrested and imprisoned after it, but was released without indictment. He was a linchpin between the elites of Japan’s fascist period and their postwar successors, brokering the deal between Diet factions that created the LDP and, as prime minister, trading subservience to American military and foreign-policy aims and a network of American bases throughout Japan for the elite’s freedom to manage domestic affairs (including the right to raise barriers to imports of American goods and investment capital).

Diet. As the years have gone by, other power centres—construction lobbies, new industries fostered by the IT revolution—have emerged; these in turn have had to be co-opted or neutralized. Yet the MOF remains responsible for drawing up the national budget. Directly or indirectly (via its spin-off, the Financial Services Agency) it oversees the country's banks, brokerages and insurance companies. It sets tax rates, collects taxes and, with its control of the Bank of Japan's budget and say in the appointment of its senior officials, enjoys a disproportionate influence on the conduct of monetary policy. To replicate the MOF's supervisory reach in the United States, one would have to lump together the Treasury, the SEC, the Comptroller of the Currency and the IRS, along with much of the power of the Federal Reserve and that of key Congressional committees including House Ways and Means and Senate Banking. That confers on the MOF the *primus inter pares* status that any institution with the power of the purse will enjoy in a given political set-up. And since it oversees and channels the lifeblood of finance, on which the other elements depend, it remains the institutional heart of Japan's ruling class.

Economic security functioned as the critical asset under the post-war settlement that assured and perpetuated ruling-class hegemony. Two notions with roots in the pre-war economy were reshaped in the fifties and sixties to provide that security. The first was *seishain*, which literally translates as 'full-time employee', but which basically denotes lifetime employment (for men; economic security for the typical Japanese woman was historically available only via marriage to a man who had it). Often used interchangeably with the Japanese-English term *sarariman* ('salary man'), *seishain* protocols were extended to male full-time blue-collar workers in the 1960s after a decade of sometimes violent struggles by the Japanese left and Japanese labour.⁵ The deal saw corporations promise life-long economic security to their core male employees in return for complete management discretion over job content. Companies would not fire a man save in the most flagrant cases of insubordination or moral turpitude; the Ministry of Labour and the Ministry of Justice enforced the rules against any company tempted to ignore them. With the exception of a few radicalized public-sector unions (most importantly, that

⁵ See the indispensable account by Andrew Gordon, *The Wages of Affluence: Labour and Management in Postwar Japan*, Boston 2001.

of the Japan National Railroads, which continued to strike periodically until the railroads were nominally 'privatized' in the 1980s), labour quit making trouble.

The second notion, crucial for understanding the financial bulwarks of Japan's ruling class, was *yoshingendo shoryaku saki*, or 'outside credit limits'. Financial institutions used the label for companies seen as beyond the risk of bankruptcy or default—no credit analysis was necessary, even in troubled times. When the company's cash flow from operations was insufficient, someone would be sure to cover the shortfall—other companies in the same business 'group' (e.g. Mitsubishi/Sumitomo), the 'industrial association' (essentially, cartels organized by bureaucrats) to which the company belonged, or the bureaucracy itself. All ruling-class men were *seishain* at institutions *yoshingendo shoryaku saki*, or their public-sector equivalents; their economic security was guaranteed. Naturally, this kind of assurance extended beyond well-connected companies to members of the permanent bureaucracy, faculty at established universities⁶ and civil servants at lower levels of government, including schoolteachers. But through to the 1970s these protocols also applied to a lot of other men, including blue-collar workers at major established companies—who could not be deemed 'ruling-class' by any stretch of the imagination.

From bubble to implosion

This social settlement, over which the MOF presides, has taken a significant buffeting in the last fifty years. The first shock came in the early 1970s, when Nixon's abandonment of the Bretton Woods system, which had permitted Japan to use a fixed (and undervalued) exchange rate to engineer export-led growth, confronted the country's rulers with the need to find back-up motors for its economy, given the persistent upwards pressure on the yen. The ascendancy of Tanaka Kakuei, prime minister from 1972–74 and undisputed 'kingmaker' for the following decade, coincided with (and was partly caused by) the Bretton Woods crisis. Tanaka's 'construction state' (*doken kokka*), which even the MOF supported, involved a massive public-sector stimulus in the form of

⁶ This included junior faculty; once taken on by a university, a young academic is essentially assured of life-time income—the *quid pro quo* lies in the credit taken by senior professors for research that is actually carried out by their juniors.

infrastructural projects—and with them, the beginnings of the red ink that has characterized the government's accounts ever since. But while the *doken kokka* brought wealth—and some power—to those who hadn't had it, it did not fundamentally change either the composition or the prerogatives of Japan's ruling class.⁷

The next shock came with the 'Plaza Accord'—the 1985 scheme hatched by the US Treasury to offset the damage the Reagan/Volcker policy mix of high interest rates and tax cuts had inflicted on American industry.⁸ Washington muscled the Japanese (and the Germans) into a coordinated effort to cheapen the dollar. The MOF responded by engineering soaring asset prices—equities; real estate—to compensate Japanese companies for the resultant burden of the inevitable strengthening of the yen. Then, following the 1987 New York stock-market crash—a direct result of the failure of the Plaza Accord to reduce the US–Japan bilateral trade imbalance⁹—the MOF doubled down on its credit-loosening measures. The result was the greatest asset bubble ever at that point in history. It displayed many characteristics of other bubbles—Dutch tulips, dot-com firms, American mortgages—including a complete divorce of asset 'values'—rents, dividends—from the cash flow those assets could conceivably generate, and massive levels of debt taken on to purchase those assets, debt that could only be repaid by selling the asset on to a 'greater fool'. But there was one crucial difference: this bubble had been deliberately engineered. Since they had brought it into being, the MOF authorities thought they would be able to control its deflation after their policy objectives had been achieved. But once asset prices began to fall

⁷ Ikeda Hayato—the MOF-mandarin-turned-prime-minister of the early 1960s who probably, more than anyone, deserves the title 'Father of the Economic Miracle'—had once described Tanaka as a 'member of the rickshaw class'. But Tanaka did not seek to overturn Japan's class structure. Rather, what he insisted on—and got—was more spending on the 'upcountry' Japan (*ura-Nihon* is the politically incorrect Japanese term) that formed his political base.

⁸ Briefly, the tax cuts opened up a then-unprecedented peacetime US government deficit. The high interest rates made US Treasury securities very attractive to Japanese investors. The stimulative effect of the deficits put money in American pockets, which was spent on imports. The combination of high interest rates and the high dollar devastated whole swathes of American industry. See account in R. Taggart Murphy, *The Weight of the Yen*, New York 1996, chapter six.

⁹ This was the conclusion of Nicholas Brady who chaired the Reagan-appointed commission to look into the causes of the crash. Brady would go on to serve as Treasury secretary.

in 1991, the bubble's collapse caused massive collateral damage, on a scale comparable to 2008 for the US, although in Japan the descent took place in slow—but unstoppable—motion.

That is how, as the 1990s proceeded, the unthinkable began to happen: some of the *yoshingendo shoryaku saki* institutions began going bankrupt. The MOF found itself unable to guarantee the viability of the entities under its *de facto* supervision. The price had become too high. Like besieged warriors defending a castle from attack by vastly superior forces, first the outer moats—local credit institutions (*shinyo kumiai*) and smaller securities firms—were abandoned. Then the inner walls—the regional banks, larger securities firms—were given up. Finally the keep itself crumbled. Every single core Japanese bank (historically known in Japan as *toshi ginkō*—‘city’ banks—plus the three long-term banks that had been established to channel investment capital to Japanese industry) either vanished or was absorbed into one of the new banking giants created by a series of shotgun mergers. While no depositor lost money and no *seishain* at any of these institutions lost his job (or, more precisely, his income stream), careers were ruined. Control of some of these institutions even fell into the hands of foreigners. That control may have been temporary, but Japanese men could find themselves in the unheard-of and humiliating position of reporting to foreigners younger than themselves.

The implosion of the institutions of Japanese finance inevitably spilled over into the wider economy. A *yoshingendo shoryaku saki* company typically had a ‘main bank’, a Japanese-English term that designated more—much more—than a favoured bank assigned to look after a company’s payroll or accounts. Not only did the main bank finance the company’s working-capital requirements with revolving credit that was endlessly rolled over, but it kept an eye on the company’s business, acting rather like a board of directors in an American or British firm. (Japanese companies have their own boards of directors, but until recently they were mainly composed of men promoted from within the firm, their function largely ceremonial.) If the company ran into difficulties, the main bank would step in to help bail them out—ideally before the difficulties became common knowledge. But the ‘main bank’ system could not survive the 1990s. The clearest signal of its demise was the bankruptcy of the Sogo Department Store. Sogo’s main bank had been the Industrial Bank of Japan, the crown jewel of the Japanese banking

system, its role roughly analogous to that of blue-chip Wall Street firms such as Morgan Stanley and Goldman Sachs: financing fixed-capital investment by major Japanese companies. As its president testified in the Diet, IBJ had known for years that Sogo's liabilities exceeded its assets, but its role as Sogo's main bank meant that its own status was on the line if it failed to keep the store afloat. When that was no longer possible and Sogo was put out of its misery in 2000, Japanese newspapers ran enormous black headlines of the type usually reserved for declarations of war or earthquakes that lay waste to whole cities. That the demise of a second-tier department store should provoke such a reaction was no surprise, since the bankruptcy implied the disappearance of IBJ—later absorbed into the anodyne Mizuho Financial Group—and with it, the whole underpinning of post-war Japanese finance.

Faltering domestic demand

The macro-economic consequences were predictable. Unable to count on the MOF, Japanese banks effectively quit lending to all but the safest borrowers, the most important being the Japanese government itself. Companies became extremely conservative, hoarding cash to get them through hard times—or investing overseas, in places such as the fast-growing Chinese economy. At home, nominal year-on-year wage growth, which had peaked at over 4 per cent in 1991, fell below 1 per cent in 1993 and entered negative territory in 1997; wage trends would remain mostly negative for another two decades.¹⁰ With shrinking economic security and falling real incomes, households cut back on spending. The result was persistent deflation and a classic Keynesian liquidity trap. It was not until the first years of the new millennium that orders for high-quality capital equipment from a booming China finally allowed Japan to put the stagnation of the 1990s behind it, while the passage of time had largely repaired the banking system. By 2005, some 45 per cent of corporate profits were generated from outside Japan. But—the paradox of globalization—this did little to restore wages or household consumption at home. Contributing to the problem was the mindset of the MOF, embodying a conception of the interests of the Japanese ruling class which, like that held by elites everywhere, confused the interests of the ruling bloc with those of society as a whole. It is important to understand

¹⁰ See Japan Macro Advisors, 'Japan Wage and Hours Worked'. In 2014, according to the Bank of Japan, total employee compensation in Japan stood at 51.5 per cent of GDP.

this outlook if we are to grasp Tokyo's response to the 2008 financial crisis and its aftermath.

Figuring out what constitutes a 'ruling class' in a given society is easy enough. Look for the people who have a first claim on economic resources and are the last to suffer when anything goes wrong, even when they are directly responsible for the damage. American CEOs run their companies into the ground, then retire to lives of sybaritic luxury; foreign-policy gurus in Washington waste trillions of dollars and thousands of lives in stupid wars and proceed to pop up at the World Bank, at well-funded think tanks or back at the White House, plotting more wars. Such people are so well ensconced in the American ruling class that no matter what they do or what mistakes they make, they never have to account for their actions and never suffer personally. In Japan, class inequality is less a matter of gross income and wealth disparity than of the arrangements that preserve economic security. The well-off in Japan rely not so much on their asset holdings to protect themselves from the vagaries of the market as on the guarantees of the 'post-war settlement', *seishain* employment and *yoshingendo shoryaku saki* institutions. Since the 1980s, these have sheltered a steadily shrinking percentage of the population. Whether in periods of mania, stagnation or recovery, economic security has thus become an ever-more elusive goal for more and more people.

According to the historian Andrew Gordon, 'non-regular employment' began to rise in the 1980s, driven by the 'increased pressure on corporate Japan to generate profits'—and aided, although Gordon does not specifically say so, by the collapse of an organized left in Japan that had once been sufficiently noisy that it had to be taken into account. But the number of insecure jobs increased sharply with the stagnation of the nineties, facilitated by some loosening of the hiring practices companies were allowed to use. The proportion of the workforce in 'non-regular employment' rose from a modest 15 per cent in 1982 to a striking 38 per cent in 2014—in absolute numbers, from 6.7 to well over 20 million—with the rate of increase among young men roughly double that of other cohorts.¹¹ It's been argued that the growth of non-regular employment, especially in the low-end service sector, has contributed significantly to

¹¹ Andrew Gordon, 'New and Enduring Dual Structures of Employment in Japan: The Rise of Non-Regular Labour, 1980s–2010s', *Social Science Japan Journal*, vol. 20, no. 1, 2017. Gordon notes that 'non-regular employment' is an 'awkward' term, encompassing several categories of employee; what they have in common is 'much less job security than regular employees'.

reducing the share of output accruing to labour in Japan, which fell by nearly 10 percentage points over the three decades following its high in the late 1970s, and thus also helped to weaken aggregate demand.¹²

‘In the presence of technical progress, the key to the evolution of the real wage rate is the volume of capital accumulation that is going on. In Japan, it has not been going on at all’, wrote Alexander Kinmont a few years ago.¹³ Kinmont, an investment analyst, is one of the more interesting observers of Japan today. An ardent Keynesian and disciple of Joan Robinson, he argues that the fundamental economic challenge Japan faces is anaemic aggregate demand—and that the dilemmas highlighted by most conventional analysis, of poor productivity growth, Japan’s supposed fiscal ‘trap’ or women who won’t have babies, are the symptoms of weak demand, not its causes. I have heard Kinmont argue that sparking demand is a straightforward matter: abolish consumption and inheritance taxes, have the government gently but consistently expand spending, and don’t let the Bank of Japan tighten. The response to such suggestions from the mandarins of the MOF, as well as those at the IMF and OECD, is a howl of protest about the scale of Japan’s accumulated fiscal debt, followed by absurd comparisons to Italy and Greece (Japan finances its deficit spending entirely in its own currency and almost entirely from its own citizens).¹⁴

¹² Kyoji Fukao and Cristiano Perugini, ‘The Long-Run Dynamics of the Labour Share in Japan’, Hitotsubashi University Discussion Paper 672, March 2018.

¹³ Kinmont was writing in response to an FT column by Martin Wolf, which—in the course of countering the ‘conventional wisdom’ of the MOF, IMF and OECD on the need to reduce Japanese public deficits and debt by hiking the consumption tax—argued that ‘Japan’s private sector already has an exceptionally high investment rate’. Kinmont pointed out that Japan’s net private capital stock had actually diminished over the past decade. When asked about it, he said that the numbers on which Wolf presumably relied had made no allowance for capital consumption, a close cousin of accounting depreciation. See Wolf, ‘Conventional Wisdom on Japan is Wrong’, FT, 12 December 2017; Kinmont’s letter, ‘Raising Gross Investment Is Japan’s Proper Focus’, was published on 14 December 2017. Government statistics support Kinmont’s contention on the evolution of wages: for 1996–2015, total cash earnings in the economy shrank by 0.6 per cent in nominal terms and 0.7 per cent in real terms.

¹⁴ See, for example, ‘Is Fiscal Crisis Inevitable in Japan?’, *East Asia Forum*, 7 November 2016, in which economist Takeda Masahiko holds up Greece as a warning of what might happen if ‘we delay substantive remedial action’. Or a call on Japan by the OECD to more than double the consumption tax as part of a ‘comprehensive fiscal consolidation plan, including specific spending cuts and tax increases’: *Mainichi Shimbun*, 15 April 2019.

It is true that, after three decades of stagnation, low growth and recession, Japan's net debt amounts to some 120 per cent of GDP, while the primary fiscal deficit is around 4 per cent. Conventional thinking argues that Japan's ageing society, and concomitant draw-down of savings to finance retirement, means it will begin to run a current-account deficit, at which point interest rates will have to rise to attract inflows of capital. When that day comes, higher interest payments on the accumulated fiscal debt will blow a gap in the national budget too wide to cover. Japan therefore urgently needs to raise its consumption tax now, in order to avert a looming fiscal catastrophe. This line of argument has easily demonstrable holes. First, foreigners do not buy yen securities—whether Japanese government bonds or anything else denominated in yen—because of the interest rates on offer. Rather, the yen is one of the few currencies that circulate freely worldwide in sufficient quantities to provide a genuine alternative for those—private portfolio managers or central bank officials—who want to reduce vulnerability to the US dollar; the others, the euro and sterling, obviously have problems of their own. Second, unlike the situation in China, Japan's current-account surplus has been rising, not falling, albeit with a blip in the merchandise trade balance following the tsunami. The services deficit has almost disappeared, thanks to hordes of tourists from China, South Korea and Southeast Asia.

Importantly, income from overseas shows no sign of flagging. Much of that is in the form of internal corporate remittances. Japanese companies may not have been investing enough at home, but they have built capacity from Kentucky to Orange County, Chon Buri to Ho Chi Minh City, the Pearl River Delta to that of the Yangtze. Honda sells far more cars made in the US to Americans than it does cars made in Japan. The percentage of profits from sales outside Japan has continued to soar, from 45 per cent in 2005 to some 60 per cent in 2018 for first-section Tokyo Stock Exchange companies, much of this on goods now made outside Japan.¹⁵ This is one reason why Japan's establishment companies tend to favour the consumption-tax hike: with so much of their sales and production overseas, the tax falls disproportionately on their smaller domestic competitors, forming what amounts to a subsidy for the firms that need it least. A company like Honda can make plenty of money from its American operations to compensate for sluggish sales in Japan;

¹⁵ Jesper Koll, 'Japan's New Golden Age', Presentation to Asia Society of New York, February 2019.

the internal remittances are nice for Honda's *seishain* and shareholders. But they don't do much for the growing number of Japanese without economic security—or for a country that needs people and companies to spend more in order to boost nominal GDP, so that that fiscal-debt bogeyman can be tamed.

The sales-tax fixation

This is where Japan's ruling elite may be unteachable. For a generation now, the MOF has made saddling the economy with a large consumption tax its pre-eminent political goal. In the process, it has repeatedly endangered the web of political protection that allows it to function as a quasi-sovereign entity without accountability or oversight. If hiking the tax were really needed to avert disaster one might applaud the patriotic heroism of MOF officials, ready to decree whatever sacrifices were necessary to save Japan. But the overwhelming evidence is that it undermines the very objective it is supposed to accomplish. Indeed, if one were to design a tax with the goal of worsening Japan's central economic-cum-fiscal challenge—anaemic aggregate demand—one could hardly come up with something more destructive than the consumption tax. When the MOF first started pushing for this, in the late 1970s, one could make a case for it: Japan had bounced back from the 1974–75 recession more quickly than its peers partly by dint of running substantial fiscal deficits. Arguably the dampening effect of the tax on strong nominal GDP growth was a reasonable burden, in exchange for closing the fiscal gap. But the world has changed since the early 1970s: deflation has replaced inflation as the central monetary challenge, and the double-digit real GDP growth rates Japan then enjoyed will never return. Yet voicing opposition to this policy is out of the question for any MOF official with career ambitions.¹⁶

In the new economic landscape, another hike in the consumption tax borders on policy malpractice. Its ill-effects have been demonstrated repeatedly. The MOF's introduction of the tax in 1989 immediately

¹⁶ This may account for the MOF's otherwise puzzling failure to push for legislation that would impose a small annual increase in the tax until it reached what appears to be the MOF's long-term goal of 25 per cent. Aside from the intense opposition such a bill would generate, success would deprive ambitious young bureaucrats of a key career-enhancing move: doing battle for the next consumption tax hike.

reduced nominal GNP growth. Its hike in 1997, coinciding with the East Asian financial crisis, smothered the nascent recovery, bringing Japan to the brink of disaster and precipitating a near-meltdown of the financial system. The tax is regressive, which matters in macro-economic as well as sheer human terms, since less well-off people are far more numerous and have higher ‘propensity to spend’; it saddles family-run shops and small businesses, in particular, with a terrible burden of paperwork. So why is the MOF, in the face of overwhelming evidence, so dogged in its determination to see this tax hiked and hiked again, until it becomes the primary source of government revenues? MOF bureaucrats are not stupid—far from it. But as Orwell warned, if we misunderstand their motives, we will be unable to predict their actions—and, as Karel van Wolferen pointed out in *The Enigma of Japanese Power* (1989), political aims need not be conscious to be realized.

To understand their motives, it is worth recalling two points: the key role of German thinking on how a late developer ‘catches up’, and its close fit with Japan’s conceptual inheritance on the relationship of rulers to the ruled. In *Austerity: The History of a Dangerous Idea*, Mark Blyth traces the German hostility to Keynes back to the tradition of ordo-liberalism—‘a peculiar form of liberalism’ which sees ‘the state as a rule setter that enables competition and aids market adjustments through the development of specific economy-wide mechanisms and institutions.’ One can hardly keep Japan from coming to mind when Blyth goes on to note that:

The German state, whether Wilhelmine, fascist or democratic, has always accorded itself a more directive and coordinative role in the economy than is typical of liberal states. Critical throughout Germany’s development has been the role of the state in suppressing consumption and increasing savings to provide adequate pools of capital for large-scale industrial investments, while also providing transfers to smooth, rather than block, such policies.¹⁷

While the Japanese ruling class does not consist of ordo-liberals—they’re not liberals of any sort, ordo or otherwise (among other things, far from the ‘fear of cartels and private power’ that Blyth labels a key feature of ordo-liberalism, Japan’s rulers actively encouraged the formation of cartels)—the relevance of German experience and thought is obvious. That extends to Marxian thinking: most of the bureaucrats, bankers and business leaders who presided over the early decades of Japan’s post-war

¹⁷ Mark Blyth, *Austerity: The History of a Dangerous Idea*, Oxford 2013, pp. 132–5.

‘miracle’ had been trained by Marxian professors entrenched in the great universities. While few of their graduates would have defined themselves as Marxists once they had assumed their places in the Japanese power structure, the idea of economic change as the prime driver of human history, the leading role of a properly socialized elite cadre and a disdain for plutocracy and conspicuous displays of wealth were all instantly appealing.¹⁸ This was also filtered through the heritage of Tokugawa-era economic thinking, which saw ordinary people—peasants and artisans—as existing purely for what they could produce. Shogunal authorities openly debated how much could be squeezed from the peasantry, concluding that they needed enough to keep from dying, but not enough really to live. Merchants were viewed essentially as parasites—indeed, merchants flaunting their wealth contributed to the discontent that ultimately led to the downfall of the Tokugawa shogunate.¹⁹

No one in Japan today advocates holding the working population down to subsistence levels. Indeed, by contemporary standards, even less well-off Japanese have a reasonable standard of living: the cities are clean and virtually free of street crime; public transport, health care and education are good. But the Tokugawa inheritance—channelled via a century of German thought and example on how a late developer catches up by means of state-directed consumption suppression and funnelling savings to heavy industry—has imprinted an instinctive recoil from the notion, suitably updated, that commoners should have much more than it takes to get by. It’s not simply that an economy in which the primary policy objective was boosting aggregate demand could put a lot of power over economic outcomes in the hands of ordinary households, or the prospect of women, part-timers, immigrants and other outliers

¹⁸ In considering why Keynesian perspectives ‘fell on such stony ground in post-war Japan’, Kinmont has suggested that Keynes was ‘apprehended by those in the Marxian tradition . . . as an essentially conservative figure, attempting, in their view unnaturally, to prolong the life of capitalism.’ Kinmont credits the economist Wakatabe Masazumi with pointing out how widespread this notion is in Japan’s Marxian circles: Kinmont, ‘An Awkward Case: Japan’s Slump and the Dangers of Economic Orthodoxy’, speech given at St Peter’s College, Oxford, 30 January 2014. Significantly, Wakatabe was appointed deputy governor of the BOJ in March 2018; the media labels him a ‘reflationist’.

¹⁹ The absence of any theoretical understanding of the role of merchants may help to explain why Japan never had a bourgeois revolution, even if many of the conditions—widespread literacy, great urban concentrations, a nationwide transportation network, sophisticated financial infrastructure—were already in place by the late-17th century.

with more money in their pockets, that seems to bother Japan's administrators. Rather, a tight labour market could hasten the destruction of perhaps the most important instrument of social control in post-war Japan: the 'permanent' job; the institution of the *seishain*.

Recent surveys confirm the continuing appeal of stable, economically secure jobs.²⁰ The bureaucracy, national or local, and companies like Toyota, Panasonic, Mitsubishi Trading, Otsuka Pharmaceuticals and All Nippon Airways are overwhelmingly listed as the most desirable employers (as are Google, Apple and Amazon). But in a booming, demand-fuelled economy, droves of youngsters entering the workforce might begin opting for non-traditional career paths without risking the social, family and even sexual opprobrium traditionally directed at those who turn away from the status and security of the *seishain*.²¹ To be sure, some of this is already happening: significant numbers of entrepreneurial younger people today reject offers from establishment companies in order to set up their own businesses, while the media feature tales of push-back from their older counterparts against unreasonable working hours or assignments, with much attention given to *karōshi* (death from overwork) and *burakku kigyō* (black enterprises), said to work new recruits to the point where they quit. Established foreign businesses—*gaishikei* (literally, 'foreign capitalized firms')—can now recruit new graduates from prestigious universities and successful middle managers from Japanese companies, neither of which was easy until the 1990s. But a wave of reflationary spending could bring on far more of this kind of thing. While that would probably be good for Japan's macro-economic numbers, it could pose a threat to existing power relations.

Political crisis

This matrix of advanced-capitalist dilemmas, cultural inheritance and class relations helps explain the contradictory policy impulses of the MOF. On the one hand, since 1991 it has pioneered an ambitious mixture of monetary and fiscal stimulus, experimenting with negative interest rates, quantitative easing and yield-curve control a full decade

²⁰ See the website of Japanese consultancy firm Risk Monster.

²¹ In postwar Japan, the prospect of economic security became the single most desirable feature a young man could offer to young women looking for a mate. See discussion in Murphy, *Japan and the Shackles of the Past*, Oxford 2014, pp. 158–66.

before Geithner and Bernanke. On the other hand, it has repeatedly resorted to hiking up the demand-killing consumption tax, along the lines of the pro-cyclical *Schuldenbremse* imposed on the Eurozone. This duality was apparent in Japan's response to the 2008 world financial crisis. In a sense, Japan had already undergone its '2008' in 1991, and then again in 1998–2000, when the MOF had stepped in to merge the 'city banks' into mega-financial institutions. Contagion from the collapse of Lehman Brothers and the near-meltdown of American finance was limited in Japan, unlike in the big EU countries. But industrial production was hard hit by the Great Recession in the US and Western Europe, the final destination for a large proportion of Japanese exports, even if these were first shipped as intermediate goods via China. The Japanese economy contracted by 5.4 per cent in 2009, despite a turnaround towards the end of the year. Non-regular workers bore the brunt of the redundancies that followed, as firms quit hiring and let go anyone they could; even *seishain* were muscled into taking 'early retirement'. With tent cities for the unemployed springing up in Tokyo's parks, it was no longer possible to hide the undermining of Japan's institutions of economic security.

In the election upset of 2009, Japan was once again ahead of the West, where post-crisis political turbulence did not strike until some years later. After half a century of virtually unbroken rule, the LDP was ousted by the left(ish) Democratic Party of Japan, running on a platform of radical reform: a reset of US–Japan relations, challenging plans for the expansion of American military bases on Okinawa; replacing the informal provisions of economic security with an explicit, legally enforceable safety net; no further hikes in the deeply unpopular consumption tax. The DPJ had been stitched together from remnants of the old Japan Socialist Party, the defunct 'centrist' Democratic Socialist Party and breakaway factions of the LDP led by Ozawa Ichirō, a veteran operator who had learnt his statecraft from Tanaka in the 1970s. Japan's ruling class could not halt the steamroller of popular discontent that swept the DPJ into office with 308 seats in the Diet, compared to the LDP's 119. But even before the election, the public prosecutor set out to neutralize Ozawa with the usual tactics in dealing with ambitious, reformist politicians: 'investigations' of one or another violation of some minor campaign statute, amplified in the establishment press. The manufactured hullabaloo persuaded Ozawa to step down as party leader in favour of Hatoyama Yukio, a scion of one of Japan's oldest political dynasties. As prime minister, Hatoyama was then assailed by an alliance of the official bureaucracy, the LDP, the

'quality' press and the Washington foreign-policy establishment, which succeeded in tarring him as an incompetent sap who was putting Japan's security at risk by supposedly 'fumbling' the question of Okinawa while pushing for closer relations with China.²²

Meanwhile the MOF had laid time bombs inside the government. Hatoyama had appointed MOF veteran Fujii Hirohisa as finance minister, supposedly an opponent of raising the consumption tax; Fujii now used his position to appoint vice ministers who were advocates of the tax hike. He was followed by Kan Naoto, popular with the public as a fierce critic of the bureaucracy. Once in office, Kan began to mutter about reversing the DPJ's pledge not to hike the tax; presumably MOF bureaucrats had managed to frighten him with scenarios of fiscal calamity. Kan's wobble on this key DPJ pledge brought plummeting poll numbers, the loss of an Upper House election and a rift with Ozawa. In March 2011 the earthquake and tsunami temporarily sidelined everything else. Kan stayed on to push a reconstruction bill through the Diet, but the price exacted by Fujii's appointees at the MOF was the tax hike—a death warrant for the DPJ. Kan's successor, Noda Yoshihiko, had been one of Fujii's appointees. Noda now proceeded to cut a deal with the LDP, agreeing to an early election that everyone knew the DPJ would lose. It had managed to score one of the great 'own goals' of political history: assuming all the heat for imposing a hated measure on the country, which the LDP opposition was too fearful to push through on its own. A disgusted electorate abandoned the DPJ in droves.²³ In 2012 the LDP was back in power under the leadership of Abe Shinzō.

Shape of the recovery

Japan's elites had succeeded in neutralizing the threat posed by the DPJ. But its initial success had scared them badly. They were determined to make sure that nothing like the insurrection of 2009 could ever happen again. The trick was to pull off sufficient economic progress to ensure the electorate would keep the LDP in power while at the same time preserving ruling-class prerogatives and privileges. There was, of course, no unanimity on how to bring that about, but Abe had had two lessons seared into his thinking. First, no matter how reactionary a given agenda

²² See Gavan McCormack, 'Obama vs Okinawa', NLR 64, July–August 2010; and R. Taggart Murphy, 'On Shinzō Abe's Japan', NLR 93, May–June 2015.

²³ Noda's mishandling of the confrontation with China over the Senkaku islets also contributed to the rout. See Murphy, *Japan and the Shackles of the Past*, pp. 340–54.

might actually be, it had to be sold as a species of reform. Abe brought into his inner circle Iijima Isao, arguably Japan's greatest living master of political theatrics.²⁴ Iijima convinced Abe that the electorate had to believe that economic reform and prosperity was his central mission, not repudiating the constitutional restrictions on rearmament. Abe duly talked about the 'three arrows' of Abenomics: structural 'reform' (mostly hot air), fiscal stimulus (negated by the MOF's consumption-tax hike) and monetary easing. The last one ended up mattering, though not quite as advertised. In order to get the monetary easing he wanted, Abe insisted on appointing Kuroda Haruhiko as governor of the Bank of Japan. Although Kuroda was an MOF man, he was not their candidate for the post.²⁵ He had come up through the international side of the MOF rather than the more powerful budget bureau, and had been put out to pasture as the president of the Asian Development Bank in Manila. He was brought back to Tokyo partly because he was a known disciple of Irving Fisher, the Depression-era American economist who had famously called for holding the monetary gas pedal to the floor for as long as it took to break deflation.

Once installed at the BOJ, Kuroda duly announced that he would flood the economy with money until inflation reached 2 per cent. Although, predictably, quantitative easing failed to raise the prices of goods and services—as Keynes had taught, loose monetary policy in an economy suffering from anaemic demand is akin to pushing on a wet noodle—much of it did find its way into the stock market. Kuroda's QE also brought down the exchange rate of the yen on foreign-exchange markets, which had got dangerously high during the DPJ's time in power—dangerous at least to Japan's old-line corporate exporters, for whom *endaka* (high yen) had become an increasing burden, threatening their ability to honour all

²⁴ In the early 2000s Iijima had played a key role in positioning LDP leader Koizumi Junichiro as a maverick reformer, despite his direct political descent from the LDP/bureaucrat mandarins who had been partly displaced in the early 1970s by the more populist Tanaka and his disciples. Iijima had been so successful at this sleight-of-hand that Koizumi's actual policy mix of austerity, neoliberalism and dismantling some of the pipelines that had helped spread money around had largely gone unnoticed.

²⁵ Although the MOF remained the single most powerful institution in the country, it had received a battering, apparent in the tell-tale signs of a politically influential body under pressure: waves of scandals publicized in the popular press. These whetted the appetite of other important power centres, including the Trade Ministry and the *kantei* (Prime Minister's Office), which saw an opportunity to grab some of the MOF's historical prerogatives, including setting the economic-policy agenda; Abe has been particularly adept at this.

their existing promises to *seishain*. The yen's fall also accomplished what Abe needed: export receipts in yen terms increased (even if the volume of exports barely moved), resulting in sharply rising corporate profits, which in turn provided a justification to park much of the new money being created in the stock market. It was enough to convince a critical mass of voters that the economic recovery was here to stay. Abe was able to call—and win—a second election in December 2014 that entrenched his and his party's hold in power, albeit on a turnout of barely 53 per cent, the lowest in Japan's post-war history. With the destruction of the DPJ, the threat to the prerogatives of Japan's ruling class posed by popular discontent had been seen off.

The shape of the recovery largely reproduced what had gone before. Japan's GDP growth has been modest—it was 1.9 per cent in 2017, slowing to 0.7 per cent in 2018—but given the country's declining population, per capita GDP looked better, particularly since extremes of wealth are so much less pronounced than in countries like the US and UK.²⁶ Corporate profits rose for six straight years, dipping slightly in 2018; altogether, they have trended up from some 6 per cent of GDP at the trough of the post-bubble deflation in 1Q 1998 to 16 per cent in the most recent statistics for 1Q 2019. But as noted, profits have tended to accumulate in idle pools of cash on corporate balance sheets. According to the economic analyst Jesper Koll, corporate cash balances in Japan rose from some 20 per cent of GDP in 2007 to over 120 per cent in 2017; comparable figures for the US are, respectively, 15 and 35 per cent; in Germany the number actually fell slightly from the 20 per cent it had been in 2007. Meanwhile, wages continued to stagnate: between 1996 and 2015, total cash earnings in the economy shrank by 0.6 per cent in nominal terms, and by 0.7 per cent in real terms. Against this background, Abe won again in the 2017 election, though turnout was a mere 54 per cent, down from 69 per cent in 2009.

Power preservation strategies

After eight years in power, Abe's position remains secure (despite losing his super-majority in the July 2019 Upper House elections). Indeed, one

²⁶ Median household wealth in Japan is \$96,000 versus \$50,000 in the US; only 9 per cent of Japan's households have less than \$10,000 compared to 28 per cent in the US; the respective percentages of households with one million dollars or more are 2 per cent and 6 per cent. Numbers courtesy of Jesper Koll.

would have to go back to the Meiji period to find an elected Japanese politician with Abe's sustained hold on the levers of politics. Abe has not only supplanted his great uncle, Sato Eisaku, as the longest serving post-war prime minister, but has surpassed the Meiji general Katsura Taro as the longest serving prime minister ever. Longevity in office is the clearest sign of power in the Japanese political setup. Efforts to unseat him have come to naught; Abe has so far effortlessly deflected the scandals that are the most potent weapon wielded against prominent politicians.²⁷ We can thus predict that Japanese policy will continue to be dictated by aims and motives—whether conscious or not—that have as their overriding purpose the preservation of the power and prerogatives of Japan's ruling class. We can distinguish four of these goals.

1. *No new class of plutocrats.* Japan's rulers will almost by instinct join forces to prevent the emergence of a new class of wealthy plutocrats with real political power. That doesn't mean some people won't get rich. But there will be no equivalent of a Sheldon Adelson dictating Japan's foreign policy, a Charles Koch buying up much of the Diet, a Rupert Murdoch laying waste to Japan's establishment media or a Mark Zuckerberg determining how Japanese relate to each other. The crucial institution here is the judiciary, with the public prosecutors playing a leading role. A wealthy, prominent person who behaves in a way deemed to violate Japanese norms is likely to find himself (it's almost always a 'he') caught up in a brouhaha that observers from common-law systems such as the US and the UK find bizarre and arbitrary—even 'unjust'. Prosecutors descend in droves on the home or office of the suspect; they will have alerted the media and the 'perp walk' takes place under the glare of camera lights. The initial charge will usually be trifling, but suffices to detain the suspect, without access to his lawyers, while the prosecutors rifle through his affairs for the evidence they need to convict him of something more significant, meanwhile working with their contacts in the

²⁷ The main scandal involved Abe and his wife's ties to a 'patriotic' academy, the Moritomo Gakuen, whose purchase of state-owned land had involved, as MOF officials admitted, the deliberate alteration of documents. The fact that the scandal never developed legs was proof enough of Abe's grip on power, in contrast to the trivial scandals hyped up around Ozawa and Hatoyama. In late 2019 a new scandal arose over the destruction of documents that might have pointed to Abe's favouritism towards his supporters at a government-sponsored cherry-blossom viewing party; it remains to be seen whether this too will simply fade from public view. See 'Allegations Over Cherry Blossom Party Bloom into Fresh Document Scandal for Abe', *Japan Times*, 23 November 2019.

press to orchestrate a media show trial before the defendant has even appeared in a court of law. Famous cases reported worldwide—most recently that of Carlos Ghosn, former president of Nissan—typically give rise to outrage about travesties of justice in Japan.²⁸

Yet Japanese prosecutors are rarely, if ever, personally corrupt. There is nothing comparable to the American prosecutorial shakedown of people with limited resources in order to rack up convictions and build careers—the ‘guilty’ pleas forced via plea-bargaining on suspects who cannot afford decent lawyers. Western critics ignore Japan’s heritage of civil rather than common law and the concomitant discretion granted prosecutors in determining the applicability of a given statute. Both prosecutors and judges are officials of the Ministry of Justice, although they come from two different divisions, and see the law as a tool in fulfilling their fundamental task: the protection of the established order. In this, they are consistent not only with their own heritage but that of the entire history of East Asian political thought, which defines a proper social order as one ruled by an enlightened mandariate. Prosecutors in Japan do not pursue cases unless they are convinced the suspect is guilty. But that guilt is less a matter of violating a statute than offending behavioural norms. Police and prosecutors can be quite lenient with an offender who admits his guilt and is genuinely contrite. No one in Japan is locked up for decades, for example, because of illegal pornography found on a computer or for being caught shoplifting; the entire justice system is geared towards rehabilitation of such people.²⁹

Plutocrats who begin to threaten the established social order will attract the attention of the prosecutor, however, and everyone knows it. A famous case was that of Horie Takafumi, the brilliant entrepreneur who dropped out of the University of Tokyo to found a company, Livedoor, which aimed to take advantage of the internet’s potential to circumvent

²⁸ See, for example, the editors of the *Wall Street Journal* on 5 March 2019: ‘Bail for Ghosn—But Justice?’ Such grandstanding fails to acknowledge that justice in the US is increasingly available only to those who can afford it; the constitutional requirements for trial by jury and against arbitrary searches and cruel punishments having essentially become dead letters for all but the rich.

²⁹ University of Tokyo law professor Daniel Foote labelled it ‘The Benevolent Paternalism of Japanese Criminal Justice’ in the *California Law Review* (1992). It should be noted that narcotics are an exception: laws are draconian and violators receive little mercy—surprising in a country where alcohol abuse, DUI excepted, is deemed largely forgivable.

corporate defences against outsider shareholder pressures. Horie had been seduced by the Koizumi government's talk of a neoliberal transformation, and seems not to have understood that most of this was a cover for welshing on lifetime employment practices while ingratiating Koizumi with the White House; it did not signify open season on Japan's traditional power relations. In 2006, with Horie a celebrity—always dangerous in Japan—prosecutors threw him in jail, then spent a month going through his papers while orchestrating the equivalent of a national lynch mob until they found enough evidence to charge and convict him. To be sure, Horie had been breaking the law in sleazy ways (his favourite tactic involved repeated stock splits that enabled him to issue new shares while old ones could not be sold). But the message, as the prosecutor's office clearly stated, was to 'remind' people that 'wealth comes from hard work', not financial gamesmanship.³⁰ This was re-enforced six months later with the arrest of Murakami Yoshiaki on technical charges of insider trading, stemming from his involvement in some of Horie's deals. Murakami was a more establishment figure than Horie; he had been a rising star at MITI before he left to pursue a career of shareholder activism. In the wake of Horie and Murakami's arrests, the number of start-ups plummeted.³¹

Steeply progressive inheritance taxes and the long-standing use of tax audits to discipline anyone who consumes too conspicuously also militate against the emergence of a new plutocratic class. An 'exit' tax that came into effect in 2015 discourages those attempting to move large sums out of Japan—a measure directed specifically at entrepreneurs planning to take their companies public and then move their legal residency to somewhere like Singapore, to escape capital-gains taxes. Executive compensation remains a fraction of what it is in the US.³² Structural factors also operate in the same direction. Strong defences are still in place against any unravelling of the cross-shareholding structures that

³⁰ See account in Murphy, 'East Asia's Dollars', *NLR* 40, July–August 2006.

³¹ Only recently has the number of Japanese start-ups begun to climb again, with much of the activity involving apps for smartphones. The Japanese language imposes a natural limit on how large the resulting businesses can become—the apps are of little use overseas—which means these entrepreneurs are not likely to become rich and powerful enough to disturb established companies.

³² Bloomberg and the IMF give the ratio of CEO compensation to median employee pay at 265 in the US and 58 in Japan. See Steve Vogel, 'Carlos Ghosn's Compensation Is not the Global Standard', *Tokyo Business Today*, 14 February 2019.

allow companies to sprawl like sleeping dragons on hoards of idle cash. Murakami has recently resurfaced and, together with his daughter Aya, has become the most visible symbol of a supposed new wave of shareholder activism in Japan.³³ But his latest bid—an attack on the printing firm Kosaido—was beaten back in May 2019, and to date, no hostile takeover has occurred in Japan. Murakami blamed cross-shareholding, but reflexive recoil from the notion of outsiders getting rich off the pickings of ‘undervalued’ companies is just as surely at work. Meanwhile, the total share of corporate profits accounted for by the financial sector remains around 10 per cent, compared to some 30 per cent in the US. The BOJ’s quantitative easing did cause a surge in stock prices that, as we have seen, helped Abe and the LDP convince the electorate that the economy was improving. But extensive cross-shareholding and progressive taxation mean that less of the appreciation accrues directly into the pockets of the rich than in the US or UK; rather, the rising stock market helps established companies protect positions for *seishain*.

Japan is thus unlikely to meet the fate of a US that has seen a small class of rapacious billionaires effectively hijack the government for its own ends. Yet there are some costs to the means Japan’s rulers have adopted to avoid this eventuality. For all its flagrant abuses, the thriving US market in mergers and acquisitions does help to prevent complacency about under-utilized assets. The late Stefan Lippert had identified some 250 Japanese companies as ‘hidden champions’, using the designation initially coined to explain the dynamism of the German economy—that is, firms that enjoy pre-eminent market shares in their sectors, but are little known to the general public or the investment community and tend to be closely held, relying on retained earnings for their financing.³⁴ In Japan, in contrast to their German, Swiss and Swedish peers, most ‘hidden champions’ are manufacturers and they mainly produce upstream products, purchased for their quality and reliability rather than their price. They are also among the most profitable companies in the country. But they tend to rely on others—mostly a traditional *sōgō shōsha* or ‘trading company’, such as Mitsubishi or Marubeni—to handle their marketing, sourcing and distribution overseas. For Lippert, the parochial corporate

³³ See ‘Japan Toys with Shareholder Capitalism Just as the West Balks’, *Economist*, 28 March 2019.

³⁴ See Richard Solomon, ‘Stefan Lippert: Remembering an Educator in Search of Excellence’, *Japan Times*, 16 November 2016. For discussion of the original conception, see Hermann Simon, *Hidden Champions of the 21st Century*, Cambridge MA 1996.

culture of the 'hidden champions' was the biggest obstacle to the growth of the Japanese economy as a whole, in an era when the most successful companies are those that, like Apple, offer complex bundles of products and services, combined with global supply chains and distribution networks. But to change the parochial orientation of Japanese companies implies outlier firms becoming big enough to challenge the established order, which is unlikely to happen any time soon.

2. *Preserving Japanese control of core economic assets.* The aim of maintaining control over national assets goes back centuries. Even in the post-war period, when Japan desperately needed capital to finance reconstruction, foreigners were prevented from controlling important economic assets, outside a few industries such as oil refining. This was the most significant difference between Japan and South Korea, on the one hand, and China and the other 'Asian tigers'. The Chinese, Thais and Malaysians encouraged and sought out foreign direct investment in their SEZs; the Japanese and Koreans blocked it. This is not going to change, despite isolated sales of troubled companies to foreigners or the import of celebrity executives from abroad—usually to break up logjams of entrenched factionalism, such as those paralysing Sony and Nissan. The most famous such case is that of Ghosn, the French-Brazilian-Lebanese CEO at Renault who became CEO at Nissan in 1999 when the two auto giants entered into an alliance, cemented by cross-shareholding. Ghosn proceeded to rationalize Nissan, turning around the then-troubled company with cost-cutting measures that would have been difficult or impossible for a Japanese, including the break-up of the *keiretsu*—business group—of Nissan affiliates. Like Horie before him, he was lionized in the Japanese media and became something of a pop-culture celebrity.

But independent of the charges for which he was arrested, Ghosn appears to have made two fundamental mistakes.³⁵ First, he became too flamboyantly wealthy. Second, he advocated increasing integration of Renault and Nissan. But Nissan is the original 'establishment' Japanese car-maker, with roots in the colonial Manchuria that acted as a laboratory for so much of the post-war Japanese miracle. The country's rulers are not going to allow it to come under the permanent control of foreigners;

³⁵ As usual, the initial charge was minor: failing to report compensation payments that Nissan's board had signed off on. Ghosn was then re-arrested on more serious charges. With Ghosn's flight from Japan, the case may thus never come to trial although the prosecutors can take comfort from the confirmation of their contention that he had indeed been a flight risk.

Renault already has 43 per cent of Nissan's voting shares. The enormous international publicity the case attracted had already given rise to considerable blowback before Ghosn's sensational escape from Japan on New Year's Eve; the *Financial Times* had gone so far as to label Japanese justice a 'country risk'. But whatever the ultimate consequences of the Ghosn case, 'internationalization' of core Japanese assets is not going to be one of them.³⁶

3. *Preventing immigration from becoming a political problem.* The notion of Japan as a country without immigrants is history. It was never completely true. In the build-up to the War, millions of Koreans came to Japan to labour in the munitions factories, and many of them stayed on after 1945. During the bubble years of the late 1980s, when young Japanese began to disdain so-called 3K jobs—*kitsui*, *kitanai*, *kiken*: hard, dirty, dangerous—thousands of construction workers were quietly allowed in from countries like Iran and Bangladesh, while Filipinas were recruited to the 'entertainment' sector. When the go-go years ended, they were just as quietly sent home. But a mixture of economic recovery, demographics and corporate reluctance to offer high-paying 'lifetime' jobs has now turned large-scale immigration into a fact, in both the manufacturing and service sectors. Non-Japanese staff—cashiers, waiters—in convenience stores, restaurants and other small retailers are visible everywhere in the major cities. The construction trades and the base-board of manufacturing—the suppliers to the suppliers of the suppliers, subject as they are to grinding competition and relentless pressure to reduce costs—are increasingly staffed by immigrants. The archetypical firm in this sector was once a family-owned business somewhere on the edge of one of the great megalopolises—Tokyo/Yokohama; Osaka/Kobe; Nagoya; Hiroshima; Fukuoka/Kita-Kyushu—or along the coasts that connect them; the owner would employ a mixture of relatives and local youngsters who had not made it much past middle school.³⁷ But the

³⁶ Japanese control of core assets very much includes proprietary technologies; companies will do whatever they have to do to avoid sharing important breakthroughs. The economic improvements of the last few years have reduced the threat of skilled Japanese engineers being pushed into early retirement by companies seeking to cut costs, with many defecting to foreign companies, mostly in China and Taiwan.

³⁷ The famous movie series, *Otoko wa Tsurai yo!* [It's Tough Being a Man]—the longest-running film series ever—depicts life in this small-manufacturing sector. The straight-man brother-in-law, foil of the ne'er-do-well Tora-san, the series' star, was cast as a typical employee.

locals are no longer willing to work in such places, or not at the wages on offer. So the owners have turned to immigrants, who are.

The Japanese establishment is determined that immigrants will not become a political problem, as they have in the US and Europe, either in the sense of the immigrants themselves challenging the established order—Islamic radicalism in the Parisian *banlieue*—or in sparking the kinds of anti-immigrant populist backlashes that helped to bring about Brexit and the election of Donald Trump. Geography helps: Japan is an island country, too far from its neighbours to permit the kinds of flotillas of refugees that cross from Turkey to the Greek archipelago, or Libya to Italy. But other tactics are in play as well. While researching this article, I spoke to the (Japanese) president of a firm that supplies immigrant labour to companies in the baseboard of the automotive sector. His business is legal (some of his competitors operate outside the law), and has the support of local government, but he asked me not to disclose its name. He observed that there was a decided preference for immigrants with at least partial Japanese heritage—Japanese-Brazilians, for example, or Filipinos with a Japanese parent. Efforts are made to socialize the children as Japanese through schooling and the like. Visa arrangements are tight—many workers came into Japan under some sort of training or education visa. The very business model that allows his firm to operate means that the risks of a downturn fall on his company and their workers, not on his customers or on municipal governments that might be stuck with welfare support. (He confessed in March 2019 that he was concerned about a drop-off in orders; until late 2017, his firm could scarcely keep up with demand.)

4. *Preservation of Japan's social cohesion.* Japan's rulers see this as perhaps their most important task—and, set against the example of their developed-country peers, one has to give them fairly high marks. Addressing the question of why there has been nothing comparable to Brexit, Trump or Le Pen, Gregory Noble has suggested that two of the primary catalysts for rightist populism—highly visible clusters of immigrants seen to 'steal jobs' and threaten traditional mores, and a cosmopolitan elite that appears to prioritize globalization over the national population's interests—are essentially absent in Japan.³⁸ There

³⁸ See Gregory Noble's lecture, 'Is Japan Susceptible to Populism?', Temple University Japan Campus, 17 October 2017; available on YouTube.

is, of course, an existing far right, and some websites are clogged with xenophobic rants—directed particularly at Koreans; but rabble-rousers rarely get close to the levers of power. An exception might be Ishihara Shintaro, Tokyo's former governor, who helped trigger the confrontation with China over the Senkaku/Diaoyudao islands. But on the whole, politicians such as Koizumi and Abe have proved adept at co-opting rightist agitation without threatening traditional power relations.

More alarming for Japan's ruling class is the refusal of so many young men and women to form families and have children. There are spasms of real anger at young women who won't go back to being 'good wives, wise mothers'—the official pre-war aspiration—or at male 'herbivores' (*sōshoku-kei danshi*) who refuse to get married and sire the race. There are many reasons for the ultra-low Japanese birth rate, among them a reaction by the daughters of the women who, in the post-war period, were plucked out of the extensive, kinship-based female networks that their mothers and grandmothers had enjoyed, and locked up in tiny, isolated living quarters on the outskirts of a city, charged with the care of small children and sometimes ageing in-laws too, with husbands who were rarely home. Millions of younger women, seeing the kinds of lives being mapped out for them, simply opted out—helped by the rising living standards and job opportunities of the high-growth years. The onset of economic stagnation in the 1990s turned an option into a necessity—women had to work. Meanwhile, companies committed to maintaining 'lifetime employment' for existing *seishain* began hiring women as 'temporary' employees.

The result was the simultaneous decline of 'regular' employment and the increasing feminization of the workforce. In Japan, however, this has not been accompanied by a widespread 'lean-in' ideology, contending that women's empowerment depends on being at the beck and call of a boss. You do hear this kind of talk in Japan today, but mostly from a small group of Westernized, upper-middle-class women who complain—correctly—that they are still excluded from most positions of real power in Japanese society. Women at lower socio-economic levels—those who account for most of the rise in female labour-force participation—are generally working because they have no choice. If they are married, their husbands, probably also 'temporary' workers, do not make enough money to support even a modest middle-class living standard. Japan's ruling class tolerates the situation, if unhappily,

since the only readily available alternative, reflation, could undermine ruling-class prerogatives—most particularly, as we have seen, by threatening the social control embodied in the entire institution of the *seishain* and ‘lifetime employment’.

One-party rule

What does Abe plan to do with his remaining years in the *kantei*? When he won in 2012, many (I was among them) feared the possibility of a full-blown rightist revival. Yet neither the dreams of Abe’s most fervent supporters nor the fears of his opponents have yet materialized. The Official Secrets Act passed in 2013 gave the government the power to slap a ‘classified’ label on anything it wanted and to prosecute anyone who even unwittingly disseminated ‘classified’ information. To date, no journalist—or anyone else—has actually been arrested under the provisions, nor has the opposition media—leftist and otherwise, up to and including the *Asahi Shimbun*—been noticeably intimidated. Abe has also managed to install open rightists in the upper reaches of NHK, the national television network. But there has been no defining showdown with China over disputed islands—or over anything else, for that matter. Abe has not resumed worship at Yasukuni Shrine, with its museum glorifying convicted war criminals.

In the summer of 2019—in the run-up to Upper House elections—the Abe government did make an aggressive, potentially dangerous move against South Korea: restricting exports of speciality chemicals essential to the manufacture of smartphone screens and semiconductors, two key Korean products. The official explanation cited fear that the chemicals might end up in North Korean weapons. But the real story, as everyone in both countries understood, was retaliation for a South Korean Supreme Court decision that Mitsubishi Heavy Industries remained liable for compensation to Korean labourers forced to work for the company during the War. Before too long, however, Seoul and Tokyo had begun to pull back from open confrontation, particularly as it became evident even to Abe loyalists that the primary beneficiary would be China.³⁹ Indeed, the whole business constitutes one more example of a pattern that has marked Abe’s tenure since he re-emerged as LDP

³⁹ Lee Jeong-ho, ‘How China Can Win a “Trade War” between Japan and South Korea’, *South China Morning Post*, 10 July 2019.

president in 2012: pushing forward one of his cherished rightist notions until the political or economic cost starts to hurt.

On the economic front, Abe knows perfectly well that, without a change of course, Japan will continue to drift slowly into a comfortable decline of sluggish growth, an ageing population and retreat from industry after industry that Japanese companies once dominated. He seems to believe that the only way Japan can avoid becoming a Chinese tributary state is through ever-more obsequious behaviour towards Washington. Indeed, the sycophancy that Abe has demonstrated towards Trump—not least nominating him for the Nobel Peace Prize—is so over the top that most Japanese laugh about it, treating it as an act Abe feels he has to stage. Indeed from boyhood on, Abe has spent his life extracting indulgence from powerful older men besotted with far-right myths.⁴⁰ That started with his grandfather Kishi, Tojo's right-hand man and LDP founder, from whom the young Abe absorbed the sense that the whole panoply of the American 'alliance'—the US bases honeycombing Japan, all those 'un-Japanese' reforms that had to be swallowed in return for the Americans ending their occupation—was a temporary expedient, to be endured until Japan could take control of its destiny again.

There is no evidence that Abe has read the *General Theory* or *A Treatise on Money*, let alone Robinson's *Essays in the Theory of Economic Growth* or Minsky's *John Maynard Keynes*. But he must be aware of Takahashi Korekiyo, the finance minister of the 1930s retrospectively labelled the 'Japanese Keynes' for pulling Japan out of the deflationary straitjacket to which his orthodox predecessors, obsessed with a return to the gold standard, had condemned their country. Takahashi's measures provided the military with the economic wherewithal to wage a war—a point elegantly made by Blyth in *Austerity*—although he got himself assassinated for his trouble, having had the temerity to suggest that, once recovery was underway, military spending should be reined in. Abe has only one ready means at his disposal to turn Japan back into the kind of economic powerhouse capable of realizing his long-standing ambitions for his country: repeat what Takahashi engineered by using aggressive fiscal policy to reflate the economy. Untutored though he may be in economics, in principle Abe might have arrived at this conclusion by a process of elimination.

⁴⁰ As Michael Cucek has pointed out in his public lecture, 'Reiwa One: A Political Outlook', Temple University Japan Campus, 29 June 2019; available on YouTube.

Instead, in October 2019 Abe made good on his promise to raise the consumption tax from 8 to 10 per cent. The tax hike was a defining issue in the July 2019 election—the LDP for it; the entire opposition against. Abe had managed to forestall the hike once before, and for a while it seemed as if a weakening economy could give him the excuse he needed to overrule his MOF advisers' determination to raise the tax. First quarter 2019 numbers showed an annualized 2.1 per cent growth rate, but that was due mostly to a sharp decline in imports which did not augur well for any recovery in domestic demand; in fact, it hinted at the reverse. Wage growth in the first five months of 2019 had stalled again. But he went ahead. While it's still too early to assess the full effects, evidence of the damage it has already wrought is accumulating fast. Retail sales in October plummeted by 7.1 per cent from a year earlier, the steepest decline in nearly five years, and the government has had to prepare an emergency ¥13 trillion stimulus package to halt the rapid economic deterioration. That the tax hike will probably end up *reducing* tax revenues by slowing the economy is not a notion that Abe and his advisers seem able to entertain. The BOJ reflationists presumably fretted privately over the economic risks (Wakatabe has specifically stated that boosting nominal GDP growth would help solve many of Japan's problems). Even Kuroda, ardent disciple of Fisher that he may be, probably now accepts that monetary policy alone will not revive Japan to the extent that his nominal superiors in the *kantei* want to see. Publicly, he has asserted that the BOJ has the tools it needs to offset the deflationary effects of the tax hike—but if he wanted to keep his job, he really had no choice.

The salient political reality in Japan today—the absence of credible political opposition—will survive Abe's tenure in office. The July 2019 election underscored this point. The LDP won, not because of any great enthusiasm on the part of voters, but because they could see no clear alternative. Indeed, a 'why risk stability?' approach appears to have been the LDP's most potent campaign tactic. Abe is both an architect and a beneficiary of this state of affairs—he rode the widespread disillusionment with the DPJ government, and has worked assiduously to ensure that for the foreseeable future no such opposition can take control again. Nakano Koichi has written eloquently of the consequences of the disappearance of an opposition that could conceivably assume the reins of power in Japan. Much of the old institutional opposition to the post-war Japanese order—the Japan Socialist Party, the General Council of Trade Unions (*sōhyō*), the social science faculties in the universities, schoolteachers and their union (*Nikkyōso*), highbrow publications such

as *Chūō Kōron*—had already by the 1980s degenerated into talking shops whose disdain for the nitty-gritty of politics ended up paradoxically reinforcing the existing power structure. But Nakano contends that the very existence of those institutions in Japan once acted as a check on what the official bureaucrat-business, bureaucrat-LDP nexus of Japan's ruling class could get away with. Now that those institutions have crumbled, the checks are gone.⁴¹

The opposition that matters today—the opposition to doing what it takes to ‘make Japan great again’, to pick a phrase—thus comes from inside the power structure: from swarms of MOF zombies seeking to turn their country into the economy of the living dead, from corporate bureaucracies fearful of competition and change, from an ageing ruling class determined to hang onto its privileges. This has all the makings of tragedy, for there may be no people on earth better suited than the Japanese to figuring out how we can all manage decent lives in a world whose finite limits become ever more obvious and ever more pressing. Ultimately, as Edward Abbey once put it, ‘growth for the sake of growth is the ideology of the cancer cell’. At the limit, it cannot but seem a betrayal of the cultural inheritance of a nation whose potential gift to the rest of us may lie in an economics of restraint—one that would privilege Japan's exquisitely tuned historic sensibility to the nuances of nature and our fellow human beings.

⁴¹ Nakano Koichi elaborates in ‘Neoliberal Turn of State Conservatism in Japan: From Bureaucratic to Corporatist Authoritarian Legality’, in Hualing Fu and Weitseng Chen, eds, *Authoritarian Legality in Asia: Formation, Development and Transition*, Cambridge 2020. It was Nakano who alerted me to the significance of Hatoyama's appointment in 2009 of the deflationist Fujii as finance minister.