



Title	The End of Liberal Democratic Party-led Politics? : From the Point of View of Political Clientelism and Corruption
Author(s)	Kawata, Junichi
Citation	Osaka University Law Review. 2011, 58, p. 1-26
Version Type	VoR
URL	<a href="https://hdl.handle.net/11094/10854">https://hdl.handle.net/11094/10854</a>
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## **The End of Liberal Democratic Party-led Politics? : From the Point of View of Political Clientelism and Corruption**

***Junichi KAWATA\****

The House of Representative election was held on August 30, 2009 in the midst of falling approval ratings for the Aso Cabinet. The leading opposition Democratic Party of Japan swept to a land-mark victory at the polls, replacing the 10-year-old coalition of the LDP and New Komeito. The LDP lost its status as the largest force in the Lower House for the first time since its inauguration in 1955. The DPJ President, Yukio Hatoyama, was elected Prime Minister on September 16 and he formed a DPJ-led government in coalition with the Social Democratic Party and Kokuminshinto. Hatoyama emphasized his resolve to break away from the convention of overly depending on bureaucrats in governmental decision-making and to break away from the so-called *1955 system* in which the LDP's *zokuguin*, i.e., political tribes in a specific policy area, had been parasitic with bureaucrats. On the basis of *zokuguin* politics, we have identified two-tiered clientelism in which LDP's politicians with their *koenkai*'s supports have steadfastly endeavored to return public-works projects and to offer grants-in-aid to local industries, contractors, and their constituents. How can the DPJ-led government end this kind of two-tiered clientelism that has plagued the LDP and caused political corruption during its years in power? This is central to the DPJ, which is not finding it easy to break out of its old mold, which is similar to that of the LDP.

Lindblom (1977) wrote that "corporate discretion poses an increasingly serious threat to popular control as the business enterprise grows in size. The discretionary decision of a single large corporation (to move in or not) can create or destroy a

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town, pollute the air for an entire city, upset the balance of payments between countries, and wipe out the livelihoods of thousands of employees.” Lindblom observed the ability of business to define the political agenda, the effectiveness of businesses to mold citizen’s volitions, and the capacity of business interests to mobilize political resources. His concept of the “privileged position of business” rests on such interrelated observations.

Other studies have also identified the dominant position of business in the decade after the American social and political turbulence of the 1960s (Domhoff, 1967; Bachrach and Baratz, 1970; Barber, 1970; Mintz and Cohen, 1971; Crenson, 1971; Heilbroner, 1972; Nader and Green, 1976). However, this era produced and imposed increasing regulations on business activities. Vogel (1983) observed a significant decline in the influence of business on politics by comparing it with either the previous quarter-century or the subsequent half-decade.

Business might always play a crucial role in all countries, but the role it plays differs from country to country. Political effectiveness and business activities, as Vogel suggested, probably vary considerably over time.

We are not solely concerned here with the waxing and waning of strength in corporate power in any particular country but with the corrupt transactions caused by the viciously interwoven dynamics of business enterprises, politicians, and bureaucrats and with their social responsibility toward citizens within the same society in Japan.

Japan attained her goal of economic growth in the 1960s through the ruling Liberal Democratic Party (LDP) that was formed in 1955. While there was an increase in incomes and consumer spending power for durable goods, the heady growth brought about many economic dislocations. Even though Japanese citizens saw the dark side of economics, their attitudes toward corporations was not as negative then as it is now. However, aside from various exposés of “dirty little secrets,” the issue of industrial pollution increased criticism toward enterprises. Rather than subordinating environmental concerns to economic goals, citizens tended to set environmental considerations above the interests of business in influencing public policy.

Let us devote a little more space to discussing this tendency in detail. Reckless corporate activities caused a series of severe cases of industrial pollution in the 1950s and 60s. These cases included the dreaded Itai Itai disease, which is a bone and joint affliction caused by cadmium poisoning. This first occurred in Minamata Bay in Kumamoto prefecture, and later in Toyama prefecture. Also, there was the case of Yokkaichi asthma. Many victims suffered from the consequences of

ailments caused by water and air pollution. Citizens' movements against environmental pollution sprang from these cases.<sup>1)</sup> Four extensive pollution-related law suits were brought against industries in the late 1960s. A set of stiff anti-pollution laws were passed by the Diet in the early 1970s with the establishment of the Environment Agency within the Prime Minister's Office in 1971. Although too late for some, regulations have been tightened and technology has been developed to fight pollution.

Partly because of these strengthened regulations, some companies began to move operations overseas, mainly to Southeast Asia. To borrow Stockwin's phrase, the "location of polluting industries in Southeast Asian countries rather than Japan has caused some problems for Japan's image in Southeast Asia" (Stockwin, 1982, p. 307). These countries initially welcomed Japanese companies as saviors that would stimulate their economies. The destructive economic power of these companies, however, was in time severely criticized for exporting pollution through a series of disasters that included the decimation of tropical rainforests, the sale of agricultural chemicals and medical products, the disposal of radioactive waste, the dumping of industrial waste, and air and water pollution. The Philippines began restricting timber exports in 1976 and Indonesia also declared sweeping measures to limit the export of timber. The social responsibility of corporations was severely called into account internally and internationally. A large part of the problem could be traced to corporate power. Decisions by corporate officials greatly contributed to air pollution, water pollution, and the depletion of natural resources.

This situation finally reached the level of public consciousness in the early 1970s and the honeymoon between companies and society finally ended. The oil-shock of 1973 served to further excoriate big business behavior. Oil companies were notorious for price-fixing and limiting production. Trading companies were also criticized for alleged scarcity-buying and withholding goods such as toilet paper and petroleum-related products. This behavior triggered the Fair Trade Commission's investigation into such companies. Many journals published special issues concerning the social responsibility of business enterprises. Out of this critical phase of the mid-1970s, emerged new restrictions on the activities of

1) Since the late 1960s, scores of middle-class based consumers, environmentalists, feminists, and civil rights organizations have sought to influence both the terms of public debate and the policy priorities of the modern "corporate state." We can generally witness both corporate atrocities against society and increasing state regulations on corporate activity in the decade from the mid-1960s to the mid-70s in advanced capitalist countries. Liberal politicians and public interest activists also sought to revitalize democratic reform policies in the realms of politics and social movements.

trading companies, courtroom victories by consumer and environmental protection groups, and a strengthened Antimonopoly Law (Fukushima, 1989, p. 266).

Business circles also issued their propositions for promoting the social responsibilities of corporations. Keizai Doyukai (the Japan Association of Corporate Executives) issued *In Search of the Establishment of Mutual Trust between Society and Corporations* in March 1973. Keidanren (the Japan Federation of Economic Organizations), the nation's largest business lobby, reported on the *Economy Supporting Welfare Society and Our Responsibility* in May 1973. Nikkeiren (the Japan Federation of Employers' Associations) also published *Clean Japan Movement* in September 1973. Economic associations greatly recognized the importance of corporate social responsibility, as well as good business practices. While those concerned about excessive corporate power achieved revisions to and strengthening of the antimonopoly law in 1977, the business world's interest in its social responsibility was short-lived. Corporations pushed toward strengthening the power of business interests in the midst of the weakened economic situation after the oil-shock. Most companies were engaged in a struggle for survival. They were forced to wrestle with restructuring, expanding operations, and tackling new businesses. Business interest and activities in institutionalizing social responsibility trailed off considerably following the peak years of the early 1970s.

### **Corrupted Exchanges under Siege**

Deplorable new scandals emerged beginning roughly in the mid-1980s, which made a mess of corporate efforts to operate under the influence of the prevailing economic slump (See Tanaka, 2006). Deregulation starting in the early eighties prepared the ground for a series of outrages that first surfaced with the Recruit scandal in 1988.

The Recruit Corporation, a data services and real estate company, courted senior government officials, leading businessmen, and leading Diet members of the LDP and opposition parties, including the then prime minister Noboru Takeshita, with offers of unlisted shares in stock in their rapidly expanding subsidiary, the Recruit Cosmos Company, thus allowing insiders to get hold of shares that tripled in value after their initial public offering. These select politicians were able to make a tidy profit, and Recruit now had new political allies. The Recruit scandal also involved discretionary zoning and land-acquisition decisions in public works projects. Hideki Komatsu, the deputy mayor in charge of urban development for Kawasaki City, had profited from the sale of Recruit Cosmos stock. He was rewarded for advising Recruit to acquire land in an area designated as the Kawasaki Technopia Project.

He was given a “gift” of 30,000 shares of Recruit stock in exchange for insider information that the land values in that area were likely to soar following the planned deregulation for development.

Although the stock deals were not illegal under Japan’s tax securities laws, the transactions raised serious questions about corporate ethics. The Recruit scandal had a pervasive influence on the politicians and bureaucrats of the Takeshita Cabinet, as did Nippon Telegraph and Telephone Corporation (NTT), which was privatized in 1985. The Takeshita Cabinet was weakened by a decline in public confidence, resulting in the successive resignations of the then Minister of Finance, Kiichi Miyazawa, and the Minister of Justice, Takashi Hasegawa. Hisashi Shinto, the chairman of NTT, also resigned at this time. Takeshita’s secretary committed suicide and Prime Minister Takeshita was finally forced to resign in June 1989.

The Recruit scandal in 1988 forced the LDP to declare a policy of “self-restraint” with regard to political fundraising. The social responsibility of business enterprises became a primary and critical issue. Keidanren issued a report in 1989 concerning corporate ethics stressing (1) observance of laws, (2) fair and rational business administration, (3) disclosure of relevant information, (4) observance of laws in stock trading, insider stock trading, and public offerings of stock, (5) prohibition of exchanges of lavish gifts, (6) active responses to environmental preservation concerns, (7) harmonization and communication with society at large, and (8) efforts toward the establishment of political ethics.

Fewer fundraising parties were held for several years. However, by 1991, the fundraisers were again becoming larger and more frequent. Beyond all these technically legitimate funding schemes, vast and unreported political sums were beginning to be deposited into the coffers of LDP candidates. Even after Takeshita resigned, his faction remained the largest and most powerful in the LDP. A trail of scandals continued, viz., the Tokyo Sagawa Kyubin (an express carrier company) incident in 1992 and the Zenekon (general construction company) scandal, which erupted in the summer of 1993 (See Mitchell, 1996). These were also of great significance when considering the social responsibility of business enterprises.

As previously mentioned, the LDP kingpin vice-president Shin Kanemaru, the one-time “don of all dons” and boss of the Takeshita faction in the LDP, accepted 500 million yen in backdoor political donations from Tokyo Sagawa Express, a now-defunct trucking firm with reputed *yakuza* (similar to the *mafia* [See Iwai, 1986; Kaplan and Dubro, 1987; Maruko, 2003; Hill, 2003; Kawata, 2006]) ties, in return for political favors. Working on the politicians and officials in charge of administrative distribution duties, Tokyo Sagawa Express succeeded in having the

existing laws on distribution deregulated which had, until this time, left Sagawa's irregular activities exposed and unlicensed.

The Political Funds Control Law barred politicians from accepting more than 1.5 million yen from an individual or a corporation within a single year at that time. Nevertheless, the scandal did not stop there. Although there had been no doubt about Kanemaru's guilt, as he himself voluntarily made a public apology and resigned from his post as vice-president of the LDP in August 1992, the Tokyo District Public Prosecutor's Office mandated only a 200,000 yen fine and did not require Kanemaru to appear before a court of inquiry (Johnson, 2003).

The public became furious about this. People appeared to be finally fed up with this cycle of scandals that emerged one after the other. They were demanding Kanemaru give up his seat in the House of Representatives and appear as a sworn witness for questioning before the Diet. Politicians who were once afraid to voice their criticism of the largest and most powerful faction within the LDP were now openly denouncing the Takeshita faction and its leadership. The loudest critics formed a new group called the "Conference to Try to Regain Public Trust in the LDP," which consisted of seven junior Diet members who wished Kanemaru to leave the LDP. Under increasingly intense pressure, Kanemaru finally resigned from his seat in the House of Representatives in October 1992.

The construction and real estate industries had contributed massive amounts of money to the LDP and its candidates to keep their particular interests alive on the government's agenda. Armed with evidence of Kanemaru's dubious dealings, investigators from the Public Prosecutor's Office revealed, simultaneously with the Sagawa scandal, that some twenty or so of the largest construction contractors had donated more than 10 million yen each year over a number of years to Kanemaru. Contractors had funneled large amounts of money to politicians, or their intermediaries, in exchange for public works contracts.

The Zenekon scandal mentioned above dramatically demonstrated this corrupted exchange in the practice of bid-rigging where a construction company would meet with other nominated contractors for a negotiating session, or *dango* (bid-rigging), to decide which of the companies would get the job (McMillan, 1991; Levy, 1993; McGill, 1994). The contractors in the *dango* system funnel money to governmental officials and influential politicians in return for insider information that they can set bids by, and they exert influence on the process by which the names of companies are selected to be presented to a screening committee (Woodall, 1996). Thus, the *dango* system has been at the root of corruption in public works projects. Bureaucrats, however, are not eager to fully adopt an open bidding system because

they fear losing their control over contractors and the opportunities they will have of being appointed to important posts in construction companies after they retire from the bureaucracy, or *amakudari*.<sup>2)</sup>

The rise of the *bubble economy* of the late 1980s and the subsequent economic recession in the early 1990s opened the public's eyes to the price of aggressive overseas investments and asset-inflated speculation. At the same time, people widely came to realize that the former convoy-fleet approach, discretionary administration, or shadowy closed-door dealings could not effectively be used to tackle the serious outcomes that eventuated after the collapse of the *bubble economy*. Politicians and political parties, despite their ideological differences, might as well have been campaigning under the one slogan "Break down long-established government by bureaucracy" since the 1993 general election, which resulted in a non-LDP coalition government.

Corruption spread throughout the bureaucracy in 1996 when Nobuharu Okamitsu, a former administrative vice-minister in the Ministry of Health and Welfare (MHW), was arrested on charges of receiving 60 million yen in backdoor bribes and other gifts from a construction company for a nursing-home that was seeking ministerial subsidies to build an exclusive nursing home for the aged in Saitama Prefecture through his influence. Seven other MHW officials also came under investigation. Okamitsu was the highest ranking bureaucrat to have been arrested in the postwar era.

Due to gross negligence involving drug manufacturers and the MHW, nearly 400 hemophiliacs were exposed to untreated blood products and, as a result, contracted AIDS. Close to 2,000 others were HIV-positive. Even though the blood transfusions took place in the 1980s, the MHW tried to conceal its negligence in this scandal. The cover-up was not exposed until 1997.

Bureaucratic corruption during this period was often publicly exposed. In 1995, Yoshio Nakajima, the head of the Ministry of Finance's (MOF)'s Institute of Fiscal and Monetary Policy, was dismissed for his ties to a leading player in a credit-union scandal. Several bank inspectors from the MOF were arrested in spring of 1997 on charges of pressuring banks and securities firms for entertainment in return for advance notices of forthcoming inspections.

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2) *Amakudari* refers to the "descent from heaven" after bureaucrats retire from their ministries and are appointed to directorships or senior advisory positions of non-government organizations, which are usually public corporations, trade associations, or private corporations. This helps to ensure information exchange, policy feedback, and consensus between government and industry.

Worried by the woeful state of affairs, Keidanren in 1996 reconfirmed the spirit of the *Keidanren Charter for Good Corporate Behavior* issued in 1991, which declared that “corporations, in addition to being economic entities engaged in the pursuit of profit through fair competition, must be useful to society as a whole. For this reason, corporations will adhere to the following ten principles: respect the letter and spirit of all laws, whether domestic or foreign, and of international rules, and behave in a socially responsible manner.” Two sets of bills were presented to the Diet in 1998—a bill prohibiting politicians from peddling influence and legislation dealing with ethics—that were designed to cope with the ethical standards of politicians and bureaucrats. However, they both failed to see the light of day. They were finally concluded in 1999–2000. It would seem that their effectiveness has remained questionable.

Far from losing sight of these corrupt exchanges, scandals that had been ignored, whose roots went back prior to the conclusion of the above-mentioned laws, reared their heads to become ugly public disclosures, even in the new millennium. A scandal involving the Minister of Construction, Hajime Nakao, who accepted bribes, came under public scrutiny in June 2000. It triggered an enactment of the Law Prohibiting Mediation Remuneration, which prohibited politicians or bureaucrats from exploiting their positions to compensate for inadequate state benefits.

An additional three scandals—the KSD (the Foundation of Welfare for Proprietors of Medium and Small Companies) scandal, the Muneo Suzuki incident, and the Japan Dental Association’s indirect donation scandal—were also instrumental in understanding the birth of reformist Junichiro Koizumi as Prime Minister who dumped the money-mired style of politics embraced by the LDP.

In 2001, the LDP heavy-weight Masakuni Murakami, who had left the LDP in February, was arrested the following month in connection with arrogated bribe-taking for his political influence peddling in the project to set up *Monotsukuri Daigaku* (Craftsmanship College). He received some 72 million yen from 1996 to 1998 from KSD, a public corporation under the jurisdiction of the Ministry of Labor since 1981, and was sentenced to two years and two months of imprisonment with 72.88 million yen forfeited by the Tokyo District Court. Murakami appealed to a higher court but in December 2005 the Tokyo High Court upheld the lower court’s decision and rejected his appeal.

In 2002, the LDP’s Representative lawmaker, Muneo Suzuki, who had collected large amounts of corporate contributions from local construction companies, admitted to meddling in the affairs of the Foreign Ministry, pressuring the Ministry

into restricting bids for two construction projects on the Russian-held island of Kunashiri. He did the same with another government project to build a hydro-electric power plant in Sondu Miriu in western Kenya. He left the LDP in March and was arrested in June in connection with influence peddling in the Kunashiri project. In November 2004, the Tokyo District Court sentenced former Lower House member Suzuki to two years in prison and fined him 11 million yen for accepting bribes, falsifying a political funds report, and perjury.<sup>3)</sup>

At about the same time, a money-for-favors scandal involving the Japan Dental Association (JDA), and the Hashimoto faction, the largest faction of the ruling LDP known as Heisei Kenkyukai (Heisei Study Group), was revealed in July 2004. Although the JDA had donated 127.2 million yen to 13 of the 15 members of LDP's *Subcommittee of Remuneration for Medical Treatment in the Aging Society with a Declining Birthrate* for three years from 2000 to 2003, only one politician, former LDP bigwig and Chief Cabinet Secretary Kanezo Muraoka, was indicted for hiding a 100 million yen donation from the JDA.<sup>4)</sup> Tokyo District Public Prosecutors did not charge Hashimoto or two major players from Heisei Kenkyukai, former LDP Secretary General Hiromu Nonaka and Mikio Aoki, who was chairman of the LDP's caucus in the House of Councilors, citing a lack of evidence. Hashimoto, however, resigned as head of the faction on July 30, 2004 and was finally forced to retire from the political world, accelerating the loss of Hashimoto faction's power in the LDP. A series of problems with JDA's political donations zoomed focus onto the existence of the People's Political Association, the LDP's fund-managing organization.

The LDP has mostly monopolized and patrimonialized public duties since 1955. As a kind of "state party," it has exerted strong pressure through the distributive policies of scattering subsidies and introducing public works projects to particular interests or businesses. It has also influenced regulative policies that benefitted businesses whose activities had interested them politically. Almost all regulatory action by government created winners and losers in business, and often, other interest groups. Regulation protects the "ins" from the "outs" (Weidenbaum, 1988).

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- 3) In February 2008, the Tokyo High Court upheld a two year prison-term for House of Representatives member Suzuki, a former member of the LDP who now heads a small party, for convictions on four counts including accepting bribes from two Hokkaido companies in exchange for favors, one count of unreported political donations, and one of perjury in the Diet.
- 4) Muraoka was found "not guilty" by the Tokyo district court on March 30, 2006. The court pointed to the possibility of Hashimoto being given a contribution personally by JDA.

The “ins” try to maintain the existing system and the “outs” try to enter the system through lobbying the political/bureaucratic world. Such conglutinated regimentation has been manifested in systematized clientelism and corruption (Bowen, 2003).

It has long been believed in post-war Japan that bureaucrats “work to insulate themselves from the particular interests of companies and local communities, which usually turn to politicians to represent their interests. Politicians have limited leeway, within the framework of broad national interests, to help special-interest groups” (Vogel, 1987; Mulgan, 2000).

As previously mentioned, the image of bureaucrats who are immune to corruption has been exposed as a myth. Reflecting on the characteristics of resources available to public bureaucrats, we have become aware that bureaucratic corruption has many faces.

Politicians usually try to enact legislation and provide governmental assistance that is favorable to the business interests of corporations. They seek financial resources from business circles. By reinvesting the money collected from bribes into politics, corrupt politicians can organize systems of client networks and acquire political protection.

For LDP politicians to successfully achieve two-tiered clientelism, large amounts of money have been critical for *koenkai* (Diet members’ local organizations)-type clientelism, and power/position has been required for interests-return clientelism. Money and personnel networks developed by the conglutination of the LDP and government have simultaneously been both the accelerator and result of interests-return clientelism developed by the LDP’s policies of controlling public funds and public officials (Bouissou, 1997).

Acts of corruption concerning money and power are undeniably the same and remain invisible both in the Orient and Occident, but post-war Japan has been seriously perplexed by intermittent political corruption and its resulting scandals as previously discussed. Ruling LDP politicians with their *koenkai*’s support have exerted their influence to return public works projects and grants-in-aid to their local industries, contractors, and constituents (See Sugitani, 2008). The expense of maintaining an exchange between the *koenkai* and political funds for electioneering have fallen heavily on individual politicians (Thayer, 1969; Curtis, 1971; Ike, 1978; Hrebenar, 1986; Curtis, 1987; Park, 2006). They have financially depended on factional bosses or party headquarters for their electioneering activities. It was a historical irony in this sense that Kakuei Tanaka, the former prime minister (July 1972–November 1974), momentously died in December 1993, the year the LDP

lost its predominant base of power in the government. It was certain that clientelism based on old-style *koenkai* had declined through the introduction of single-seat constituencies and proportional representation in place of long-used single non-transferable votes in multimember districts in 1994 under the Hosokawa Coalition Government led by the non-LDP parties (See Scheiner, 2007).<sup>5)</sup> The political habits of Tanaka's wounded legacy in and out of the LDP, however, tried to survive the realignment of Japanese political parties to maintain the power it had left behind.

### **Trashing the LDP by Its Own Character: Koizumi's Reformist Government**

Junichiro Koizumi, a former Minister of Health and Welfare, became Prime Minister in April 2001 immediately after winning an overwhelming victory over the other three candidates in the initial balloting of LDP's lawmakers. He allegedly gained a large body of support because he was the antithesis of traditional LDP politicians. After his victory, Koizumi pledged to change the LDP itself and to reform the nation by putting it on the road to a new era through "structural reform without a holy precedent." Unlike the successful Upper House election in July 2001, the LDP could only keep its solid majority in the Lower House elections in November 2003 and in the House of Councilors elections in July 2004 with the help of its coalition partner, the Komeito.

Koizumi could continue to make the buds of his reforms grow with high ratings for his Government and its top-down policy-making style. A set of bills privatizing four road-related public corporations was enacted in June 2004. Collusive arrangements and cozy ties involving a highway corporation (the Japan Public

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5) Kakuei Tanaka was the most significant instigator of interests-turn clientelism. In fact, when Tanaka was the secretary general of the party in 1970, Niigata ranked third in grants-in-aid that had been provided behind Tokyo and Hokkaido. Since then the number of grants-in-aid to Niigata Prefecture has constantly been increasing. The Tanaka faction within the LDP at the national level retained powerful control of the party as well as the government. Tanaka was able to use pork-barreling, especially for civil engineering contractors, to maintain his electoral strength at the constituency level (in the old 3rd electoral district of Niigata Prefecture). Tanaka's *koenkai*, *Etsuzankai*, had a vast membership boasting about 90,000 out of a 450,000 strong electorate. About 60 per cent of prefectoral, city or town assemblymen, and 70 per cent of the civil engineering contractors in his constituency belonged to *Etsuzankai* (Hunziker and Kamimura, 1996). Because of a financial crisis in conjunction with the completion of large-scale public construction projects in the early 1980s, cases of illegal subcontracting developed as a result of sudden job reductions within Tanaka-affiliated civil engineering contractors. *Etsuzankai*, however, was strong in mobilizing votes. In the 1983 and 1986 general elections, Tanaka won by landslides by polling 42 per cent in the former and 40 per cent in the latter of all votes cast.

Highway Corporation), its retirees, and private businesses were revealed before privatization began on October 1, 2005. The strong likelihood of public money being wasted on the continual building of useless roads remained in the public consciousness.

Koizumi squeezed members of the LDP with vested interests in the postal system to pass a set of bills to privatize the postal service after winning a landslide victory in the Lower House elections in September 2005. This election transformed the Liberal Democratic Party into the “Liberal” Party, which was achieved by not authorizing miscreant members to rebel against Koizumi’s policy lines. On the whole, these kinds of efforts made *Etsuzankai*-type interests-return clientelism fade. However, nobody could foretell the state of affairs or future of the *dango* system (See Piattoni, 2006).

Problems such as extravagance by corrupt individuals susceptible to *dango* were still piling up. The Tokyo High Public Prosecutors Office conducted investigations into 47 companies in May 2005 who had rigged bids on contracts for steel bridge construction through a *dango* organization called K-kai, which was comprised of 17 companies, including major steel and heavy-construction-machinery makers, on suspicion that they had violated the Antimonopoly Law. Subsequently, two senior agency officials and one former senior agency official were arrested in January 2006 by the same Prosecutors Office’s special investigation unit on suspicion of being responsible for bid-rigging in construction and civil engineering projects, including two contracts for air-conditioning systems at a Self-Defense Forces hospital and another contract for an air-conditioning system at a Defense Agency building in 2004—2005. “The nation’s 11 regional agency bureaus were in charge of placing orders for construction work, as well as estimating costs and setting prices, but the agency’s construction department was in a position to have full knowledge of what was taking place. In their capacity as technical councilors and construction department chief, the three officials oversaw and directed the department, reportedly deciding which firms were to be awarded contracts prior to the bidding. Over the past 10 years, six former agency officials looked up post-retirement positions through the practice of *amakudari*, with four of the nine construction firms that tendered bids to participate in three joint ventures to complete three suspect air-conditioning projects” (*The Daily Yomiuri*, February 2, 2006).

Although four major general-construction companies (Kajima, Taisei, Obayashi, and Shimizu) agreed to “farewell bid-rigging,” at the end of 2005 by stating the importance of corporate social responsibility, the control of actions to restrict

competitiveness, and the establishment of corporate ethics, the decentralization fostered by the Koizumi Cabinet left too much room for corrupt exchanges between local government heads and constructors.

Countless vicious scandals were exposed in 2006. Bid-rigging in public works including those in cities like Nagoya (Aichi Prefecture) and Suita (Osaka Prefecture) and those in Fukushima, Wakayama, and Miyazaki Prefectures were revealed one after another. In October, former Fukushima Governor Eisaku Sato was arrested on suspicion of being involved in a payoff scandal over a dam-construction project in the prefecture. In November, Wakayama Governor Yoshiki Kimura was arrested on suspicion of being involved in *dango* for a prefectoral governmental sewage project tendered in November 2004. The arrest of ex-Miyazaki Governor Tadahiro Ando over alleged bid-rigging of public works projects was followed by the arrests of the former Fukushima and Wakayama governors in December.<sup>6)</sup> In these cases, the long tenure of local government heads was one of the factors embroiling them in corruption. Even if there is no relation between corruption and the number of terms served, monopoly in the leadership of local governments should be rebuffed. These incidents demonstrated that the practice of local government bureaucrats taking jobs in private industry after retirement, called *amakudari* in Japanese, has played a key role in encouraging bureaucrat-initiated bid-rigging at the local government level (*The Daily Yomiuri*, November 16, 2006). These incidents of *dango* could be just the tip of the iceberg. Growing criticism from local constituents gave birth to reformist governors like TV entertainer Sonomanma Higashi (Hideo Higashikokubaru), Governor of Miyazaki Prefecture, who laid the groundwork for changes in central government in 2009.

Moreover, the same newspaper reported in January 2007 that Construction and Transport Ministry officials were suspected “to have played a central role in rigging bids for floodgate-related public works projects of which orders amounted to about 95.6 billion yen, ordered by the ministry from around 2001 to 2005, according to investigations by the Fair Trade Commission” (*The Daily Yomiuri*, January 9, 2007). Under a law that prevents government officials from becoming involved in bid-rigging, the FTC was authorized to issue an “improvement” order to any “entity offering the contract if the latter’s involvement is confirmed” (*The Daily Yomiuri*, January 9, 2007). As the *Yomiuri Shimbun* stated, “About 90 percent of contracts

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6) The results of a *Yomiuri Shimbun* survey revealed that the average contract price for public works projects put up for public tenders in the fiscal 2004-06 period by 32 of 62 local governments was more than 80 percent of the costs estimated by the governments (*The Daily Yomiuri*, December 30, 2006).

between the Construction and Transport Ministry and independent administrative agencies and public service corporations under the fiscal 2006 special account using revenue for road-related taxes were discretionary, it has been learned. This was apparently due to that large number of former ministry bureaucrats who have taken top executive positions with the agencies and foundations through the so-called *amakudari* system, literally ‘descent from heaven’’ (*The Daily Yomiuri*, March 11, 2008).

The very same FTC searched more than 10 locations in April 2007, including the Japan Green Resources Agency (J-Green), an independent administrative entity under the jurisdiction of the Agriculture, Forestry and Fisheries Ministry, and its related entities, on suspicion that they were involved in orchestrating rigging bids for J-Green contracts for projects ordered by the agency to survey locations and soil for building forest roads, in violation of the Antimonopoly Law. According to the FTC’s investigations, J-Green Executive Director Muneo Takagi and the head of its forest road planning division Tsuneo Simooki allegedly selected the contractors for all 204 forest roads surveyed in consulting projects in fiscal 2005 and 2006 in advance, taking into consideration the number of former J-Green officials hired by the expected bidding participants and the organizations’ past performances (*The Daily Yomiuri*, May 25, 2007). Takagi was sentenced to two years in prison with a four-year suspended sentence at the Tokyo District Court in November 2007.

The Tokyo District Court sentenced former Administrative Vice Defense Minister Takemasa Moriya to two and half years in prison and fined him 12.5 million yen in November 2008 for taking an equal amount in bribes from defense equipment trader Yamada Corp. and for giving false testimony to the Diet. “According to the indictment, Moriya, who became vice defense minister in August 2003, received 8.86 million yen worth of overnight trips, including one-day golf outings, on 120 occasions from August 2003 to April 2007 from Miyazaki,” a former managing director of Yamada Corp., “as reward for giving favorable treatment to the trader in the procurement of defense equipment. Moriya also allegedly received \$32,000 (3.63 million yen), through bank account of his wife and his younger daughter from Miyazaki from May 2004 to February 2006” (*The Daily Yomiuri*, April 22, 2008).

### **Change of Power and DPJ Beset with Political Funds under Fire**

The Koizumi Cabinet that was enthusiastically elected in 2001 could not leave effective policies to an aging society. Three succeeding Cabinets (Shinzo Abe, Yasuo Fukuda, and Taro Aso) were also trapped by adherence to the past

administration and were not able to change policies.

The Abe Government from September 2006 to September 2007 tried to maintain a certain distance from the structural reform line in considering “how to increase opportunities for citizens to make a fresh start in life” to rectify a widening imbalance. However, it was at the mercy of an unexpected political scandal involving money. Toshikatsu Matsuoka, a former agriculture ministry official elected to the Lower House from Kumamoto Prefecture, had been grilled over irregular accounting of his office expenses and alleged links began to surface of bid-rigging cases that connected him to forestry-related works projects. Embattled Farm Minister Matsuoka killed himself at his residence in May 2007. His death could have dealt a serious blow to Prime Minister Abe, who had strongly defended him, and his Cabinet in the run-up to the Upper House election in July 2007. The growing distrust of mismanaged pensions caused by omitting them from pension records drove Abe to resign.

The Fukuda Cabinet from September 2007 to September 2008 came to a standstill because of a run of resignations by ministers, the heavy defeat of the LDP in the 2007 Upper House elections, and Fukuda stepping down as Prime Minister, as well as growing public anger over the involvement of Social Insurance Agency officials in the falsification of pension records. With the ruling party LDP and New Komeito controlling the Lower House and the opposition party controlling the Upper House, this anomalous scenario finally brought the Fukuda Government to its knees.

The LDP held a presidential election after Fukuda’s resignation and Taro Aso was elected president. He assembled his cabinet on September 24, 2008. It struggled to respond to a global recession that had been claimed to be the worst in a century by implementing economic measures, such as delivering four budgets. On August 30, 2009, before the expiration of his term in office, a House of Representative election was held in the midst of falling approval ratings for the Aso Cabinet. The leading opposition Democratic Party of Japan swept to a landmark victory at the polls, winning 308 of 480 seats and replacing the 10-year-old coalition of the LDP and New Komeito. The DPJ won government after an overwhelming victory, with the LDP losing its status as the largest force in the Lower House for the first time since its inauguration in 1955. Aso was not perceived by the general public to have acute sensibilities to the value of labor or imbalances in society. The historic defeat of the LDP that only won 119 seats hastened the resignation of the Cabinet of Prime Minister Aso on September 16, 2009.

That same day the Democratic Party of Japan President Yukio Hatoyama was elected the nation's Prime Minister in a special Diet session and Hatoyama formed his Cabinet, launching the DPJ-led government in coalition with the Social Democratic Party (SDP) and Kokuminshinto (the People's New Party). Hatoyama appointed Ichiro Ozawa who was a 14 term veteran of the House of Representatives. Ozawa had headed the DPJ between 2006 and 2009 and played the leading role in its sweeping victory in the 2007 Upper House election and in the 2009 election for the House of Representatives, as the party's Secretary General. He has been regarded as the most powerful figure in the DPJ.

Hatoyama emphasized his resolve to break away from the convention of overly depending on bureaucrats in governmental decision-making and to break with the so-called *1955 system* in which the LDP's *zokugoin*, political tribes in the specific policy areas, had been endemically parasitic with bureaucrats. "Central to the DPJ's platform was a pledge to put politicians, not elite bureaucrats, in control of policymaking as well as to end the confusing rivalry between the Prime Minister and his Cabinet on the one hand and party executives on the other that plagued the LDP during its years in power" (Sieg, 2010).

The DPJ was originally formed by those who had shifted from the SDP and the Sakigake to form the third front against the LDP and the New Progress Party headed by Ichiro Ozawa in September 1996. Its goals were to overthrow politics controlled by bureaucrats, to seek the accomplishment of a decentralized and federated state, to ask for dissolution of budget deficits, and to correct distortions in the aging society for future generation to gain a political foothold. Seven years after that the Liberal Party founded by Ozawa in 1997 merged into the New DPJ founded in 1998. What the history of the DPJ makes clear is that the Democratic Party has been a scratch team mainly consisting of Hatoyama's liberalism based on his would-be philosophy of "fraternity (*yuai*)" toward fellow human beings, Ozawa's conservatism setting great store by local community development, and the social democracy of the old Socialist Party.

The DPJ has made every effort to pull LDP-leaning interest groups away from the LDP after taking power. The Japan Medical Federation (JMF), a political organization of the Japan Medical Association (JMA), decided to endorse a DPJ candidate before approaching the Upper House election in July 2010. The JMA had been one of the most influential interest-groups of the LDP before the change of power. The Japan Federation of Commerce and Industry, a political organization of the Japan Chamber of Commerce and Industry (Nissho), also decided not to endorse any particular partisan candidate and stopped making political donations to

the LDP this year. “In 1991, membership numbers reached 5.47 million, before falling to the 2 million-3 million level for a number of years. But since 1997, when membership was calculated at about 3.36 million, figures have steadily worsened—largely due to the LDP’s support base weakening” especially in rural districts groaning under rapidly decreased expenditure on civil engineering projects. At last, membership in the LDP “at the end of 2009 most likely dropped below 1 million for the first time since 1977, when membership records were first computerized, LDP sources said” (*The Daily Yomiuri*, May 8, 2010). Interests-return clientelism seriously weakened the *koenkai* of the LDP’s Dietmen members.

With sidelong glances at the sorry plight of the Liberal Democratic Party, the DPJ has formed about 60 lawmaker-leagues to press the demands of business circles into shape. It is frantically seeking to capture various organizations to win organized votes. Needless to say, Rengo (the Japanese Trade Union Confederation) is a leading organization that supports it. It is, however, haunted by the fear that a new kind of collusive *zokugiin* might influence the Democratic Party of Japan.<sup>7)</sup>

Setting this aside, the Hatoyama Cabinet endeavored to improve the political nature of the conventional managed standard in a discretion-type “distribution policy” (See Lowi, 1964). In the policy domain called “regulation policy” the new coalition government endeavored to revise the Temporary Staff Services Law, to tackle the issue of not charging for highways with an eye to smashing the bid-rigging system based on discretionary contracts between affiliated family firms of the Japan Public Highway Corporation, and to reexamine the privatized postal service. Its aim was to weaken the LDP legislators who had worked for special interests in road construction and postal services.

It also tried to eliminate the possibility of retiring bureaucrats acquiring top private jobs ex-officio<sup>8)</sup> and to trim wasteful government spending on independent administrative institutions and public interest corporations by the Government

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- 7) DPJ legislator Chiyomi Kobayashi allegedly received 16 million yen provided by the Hokkaido Teachers’ Union, one of the strongest supporters of the DPJ in Kobayashi’s district. Both her accountant and HTU leader admitted to wrongdoing involving money in her campaign for the 2009 general election. Kobayashi hinted at resigning on May 19, 2010.
- 8) *The Daily Yomiuri* (May 8, 2010) report is as follows. According to House of Representatives data compiled in May 2009, 3,559 public-interest foundations employed 18,274 retired bureaucrats as of April 2008. More than half of them held executive posts. The central government provided more than 575 billion yen in public funds to such entities in fiscal 2007. Many hire former bureaucrats from specific ministries or agencies. According to an Internal Affairs and Communications Ministry survey conducted at the end of last year, 408 posts at 324 organizations were held by successions of five or more former bureaucrats from the same ministries or agencies.

Revitalization Unit that Prime Minister Hatoyama chaired. Although experts pointed out it was less effective than expected in fulfilling the government's mission of sufficiently cutting back the record scale of budget requests, attempts by the GRU "to make public its budget screening process attracted substantial attention" (*The Daily Yomiuri*, November 29, 2009). One can safely state that the structure of centralized power is the cause of corruption in the incidents, such as cases involving the administrative vice minister of the MHW, and the senior bureaucrats of the MOF. We have to devise strategies that are necessary for banishing corruption that originated from centralized power. Greater efforts should be made to shatter collusion by *zokugiin*, *amakudari*-bureaucrats, special interest groups, and even public utility corporations to weaken the administration, which is excessively discretionary and regulative.

Expectations by the public to endorse these measures produced a high approval rating for the Hatoyama Cabinet. Some time after this, an exposé of shady political funds involving Hatoyama and Ozawa before the DPJ came into power made the Cabinet's approval rating fall sharply. The Tokyo District Court sentenced a former state-financed secretary of Prime Minister Hatoyama to two years in prison on April 22, 2010, suspended for three years, for falsifying reports of political funds at *Yuai Seikei Konwakai*, the Prime Minister's fund-management body. According to the ruling, the ex-secretary was convicted of incorrectly listing or fabricating the sources of about 400 million yen in political funding reports between 2004 and 2008 in violation of the Political Funds Control Law. Jun Hongo (2010a) reported that "the ruling found that Hatoyama's assets as well as donations by his mother and sister were at times listed as donations made by others, including deceased people. The Political Funds Control Law limits the amount a lawmaker can donate to his or her fund management body to 10 million yen per annum, while also capping the donation made by an individual at 1.5 million yen a year. The Prime Minister has indicated he may have excessively bankrolled the management body for his political funds but claimed it was his understanding that funds in excess of the 10 million yen limit constituted a loan."

Hatoyama himself was not indicted over the case due to insufficient evidence of his involvement. A prosecution inquest panel of eleven citizens selected by lottery under a revised investigation of prosecution law reached a decision on April 26 that "one related to the case except a former secretary to Hatoyama had knowledge about the false reporting of the funds. The panel also couldn't find a reason why the Prime Minister would deliberately take part in such a scheme" (*The Japan Times*, April 27, 2010), supporting the prosecutors' decision not to indict Hatoyama. The

panel criticized the Political Funds Control Law at the same time, although not in quite the same sense as ordinary citizens, for its rules to be revised to toughen it. Hatoyama's ex-secretary had his conviction finalized as the decision was not appealed by the May 6 deadline.

The investigatory panel's move was still welcomed by DPJ members, including its Councilors, whose seats were up for grabs in the July Upper House election. However, the investigatory panel's decision the following day threw cold water on their initial expectations. The panel said that it had decided that DPJ Secretary General Ichiro Ozawa warranted indictment over his fund management body's alleged false reporting of political funds from 2004 to 2007. On February 4, the prosecutors indicted DPJ House of Representatives member Tomohiro Ishikawa, a former secretary of Ozawa, for not listing 400 million yen provided by Ozawa in *Rikuzankai*'s report. Ishikawa oversaw accounting at *Rikuzankai* before being elected to the Diet. Earlier reports said that Ishikawa claimed he was told by Ozawa to falsify the reports. "The prosecutors suspect the unreported 400 million yen included 50 million yen provided by Mizutani Construction Co., a subcontractor on a project to build Isawa Dam in Iwate Prefecture, where Ozawa's district is located" (*The Japan Times*, April 28, 2010). Ishikawa denied receiving any money from Mizutani Construction, and Ozawa denied any direct involvement in the case. Prosecutors opted not to charge Ozawa, citing a lack of evidence in relation to the alleged false reporting, after questioning him twice in January. Nevertheless, on April 27, the Tokyo No. 5 Committee of the Investigators of the Prosecution decided that "Ozawa merits indictment, saying a conspiracy between Ozawa and the three is 'strongly suspected'" (*The Daily Yomiuri*, May 22, 2010). Given the panel's decision, the Tokyo District Public Prosecutors Office reinvestigated the case but decided again not to indict him over funds on May 21. If the panel subsequently again decides in favor of indictment, charges will become mandatory. Regardless of the outcome, any lingering doubts that the DPJ is still finding it difficult to break out of its old mold of interest-politics have not been defused, which has its roots in the intraparty group formed by the LDP's late Prime Minister Kakuei Tanaka, who, as the ruling party kingpin, greatly influenced Ozawa's political methods.

Being anxious about Hatoyama's credibility, U Thet Tun (2010) scrupulously stated that "there was a time when you seemed to be willing and content to play second fiddle to the mighty Ichiro Ozawa, until his political-fund scandal was exposed a few months before the general elections last year and the leadership of the LDP was thrust upon you and —ipso facto—the post of prime minister after the

election victory.... More than half a year has passed since then, and their great expectations seem to have transformed into great disappointments. Japan seems adrift without purpose or direction.” Even though the DPJ touted a total ban on political donations by corporations and other organizations in its manifesto at the 2008 general election, Prime Minister Hatoyama did not seem very motivated to give it his nod.

The approval rating for the Hatoyama Cabinet dropped rapidly below 20 percent after the Social Democratic Party broke away from the DPJ-led coalition over its opposition to the relocation of the U.S. Marine Corps’ Futenma Air Station in Okinawa Prefecture in late May, 2010. Hatoyama was under mounting pressure from his own party to resign. The Hatoyama Government that had started with such high expectations with the change in power continually received body blows due to Hatoyama and Ozawa’s moneyed politics.

Hatoyama finally decided to quit as Prime Minister in the face of howling dissent by “DPJ lawmakers, especially upper house members whose seats are up for grabs in the July election, [who] have been increasingly dissatisfied with the party leadership, saying they will not be able to put up a strong fight in the upper house election under Hatoyama as prime minister” (*The Daily Yomiuri*, June 2, 2010). “Ending a turbulent eight months in office, Prime Minister Yukio Hatoyama said Wednesday (on June 2) he will step down to take the blame for his Cabinet’s planning approval rate, brought on by funds scandals and the row over relocating a U.S. base in Okinawa. Hatoyama also said the Democratic Party of Japan Secretary General Ichiro Ozawa, embroiled in the shady transfer of political funds, will step down from the party’s No. 2 post” (Hongo, 2010b). Minister Deputy Prime Minister Naoto Kan, who had also served as finance minister, was voted DPJ president earlier on June 4 and elected the 94th Prime Minister the same day. Aiming to energize the DPJ before the House of Councilors election on June 11, Kan formed his own cabinet on June 8. His intention to expunge the influence of outgoing DPJ Secretary General Ichiro Ozawa could be inferred from the new party’s top brass and cabinet lineup. “The lineup clearly shows his thinking: Give a fresh image to the party and Cabinet and win back people’s trust by diluting the influence of former DPJ Secretary General Ichiro Ozawa, whose image suffered over allegations that his political funds management body violated the Political Funds Control Law” (*The Japan Times* Editorial, 2010). Indeed, “if the party truly intends to create a ‘clean DPJ,’ as Hatoyama claimed during the general meeting Wednesday (June 2), Ozawa should explain in detail his involvement—if any—in a spate of alleged funds scandals that have tarnished his political funds management

body" (*The Daily Yomiuri* Editorial, 2010).

### Learning to Live with the Beast

Problems to be addressed have been centered on a labyrinth of illegal political contributions, bribery, influence-peddling, and the “triad” of collusive bureaucrats, politicians, and powerful corporations. According to Michael Johnston, “corruption is often the consequence of loopholes, hidden dynamics, or unintended side effects inherent in our institutions and laws” (Johnston, 1982).

Each time corruption was revealed laws were actually revised, due to the growing distrust of politics, to strengthen them so that they could be used to enforce illegal acts from being perpetrated in Japan. This points to institutional remedies against corruption that can assume concrete forms like information disclosure laws, laws to inhibit influence peddling, laws to control political funds, and guilt by association rules.

Crooked politicians and bureaucratic profiteers would continually take advantage of their knowledge of loopholes in the law to improve their positions or make a fortune. Many questions remain unanswered such as how politicians could still collect money raised by political parties under the auspices of their *koenkai* after the 1994 revised Political Funds Control Law was passed prohibiting *koenkai* from receiving contributions from business corporations or trade associations. Such politicos, however, continue to dig their own graves by exploiting such loopholes.

It was certain that the incident with the JDA’s illegal contributions in 2005 had consequences that led to attempts to intermittently revise preceding laws to control political funds. Political supporters who made financial contributions were theoretically obliged to have receipts for payments that they made through banks or mail transfers. The maximum contribution between political organizations other than political parties and political fund-raisers was fixed (unrestricted until then) at 50 million yen per annum in 2006. Irregular accounting of office incidentals such as extremely high office expenses and utility bills reported by the fund organization of Agriculture, Forestry and Fisheries Minister Matsuoka in 2007 tightened legal regulations even more prohibited the acquisition of real estate and made it a duty for political management organizations to report income-and-outgo. The law was revised in 2008 to require the political organizations of lawmakers who intended to be candidates to openly declare contributions they received of 1 yen or more to the public and be audited by a third party.

About that time the revised Antimonopoly Law was enacted in January 2006, which greatly stiffened penalties imposed on offenders but did not ban the

bypassing of political contributions. In the case of *dango*, under “the bid-rigging provision of the Penal Code, only individuals can be deemed to be criminally responsible, and held accountable for their actions. However, when the Antimonopoly Law is applied, corporations can be fined up to 500 million yen or slapped with surcharges under a provision that allows both individuals and their companies to be punished” (*The Daily Yomiuri*, March 3, 2007).

The collusive bidding at the initiative of government officials of the Defense Facilities Administration Agency with their alumni in related construction companies exposed this as a common practice to the public in January, 2006. In April 2007, the Fair Trade Commission ordered about 60 companies involved in bid-rigging to pay a total of 3 billion yen as a surcharge. This triggered reforms to the civil service system that strongly limited practices called *amakudari* by the Abe Government.

No business today, large or small, can operate without obeying a myriad of governmental restrictions and regulations. Entrepreneurial decisions fundamental to business enterprises have become subject to government influence, review, or control —including decisions such as what lines of business to go into, what products and services to produce, which investments to finance, how to produce goods and services, where to make them, how to market them, what prices to charge, and what profits to keep (Weidenbaum, 1988).

Corporations, therefore, make contributions to politicians and governmental bureaucrats while expecting business favors in return. Keidanren had continuously contributed a large sum of money to the LDP. Corruption induced by their collusive relations has had serious negative effects, not only on the political, but also the economic and social spheres. Such deleterious effects have damaged those enterprises that have been excluded from the resulting corrupt market, and, more generally, the citizens themselves. Koizumi’s “structural reform” line pushed Keidanren to strengthen its influential voice in policy making. Keeping a two-party system consisting of the LDP and Democratic Party of Japan in mind, Keidanren published a priority policy list (e.g., consumption tax increase, corporate tax reductions, privatization of the Public Highway Corporation and postal services) as the basis of political donations by its member corporations in September 2003. Before the Upper House election in July 2004, Nippon Keidanren (the Japan Business Federation), which was formed by the merger of Keidanren and Nikkeiren in 2002, resumed its collection of organizational corporate donations for the first time in eleven years and announced a prior policy evaluation of the LDP and DPJ in January and a post-evaluation in September. Although we appreciate the new

framework of political donations on the basis of the party's policy position, it remains to be seen if contributions resumed by Nippon Keidanren in 2004 could mean a second system of "public funds for political parties" is set up by corporations.

According to classical economics, a corporation best serves the interests of society at large by ignoring social concerns, operating free of state intervention, and concentrating on its efficiency in the marketplace. We have discussed the social responsibility of business enterprises in relation to two closely associated ideas: community (or civil society) and state/government (See Nadel, 1976).

The community's problem is that of deciding whose interests business should take into account. Ideally, businesses should behave as good corporate citizens and look beyond their immediate interests in the marketplace. As major institutions in the community, they have an obligation to protect and improve the welfare of the community. The most fundamental principle in communal relations is that of mutual understanding between organizations, e.g., between a locally operating company and various organized "publics" (Hodges, 1958). We have detected an increasing acceptance by business of its principles of responsibility to the public in Japan. Nippon Keidanren made a third revision to the *Charter for Good Corporate Behavior* in 2004, stressing the social responsibility of corporate citizens.

We know that the doctrine of social responsibility also has significant political implications. After the emergence of the corporate state, the legitimacy of corporate power heavily depends on the corporation's relationship to the state/government. Instead of "business petitioning government policymakers, elected government officials (should) petition business decision makers with favorable policies to induce business to act for the good of the community" (Hudson, 1998). Even after the change of power, the problem with moneyed politics, such as in the incidents involving Hatoyama and Ozawa, still remains. Now things have gone this far, Keizai Doyukai (the Japan Association of Corporate Executives) has worked out a policy to theoretically prohibit corporate/company contributions and Nihon Keidanren, as an organization, firmly established a policy not to become involved in corporate donations (*Asahi Shinbun*, February 25, 2010). Keidanren also abandoned its system of policy evaluation, which has estimated political donations made to each party since 2004 and larger donations to the LDP. There may be a real danger that abandoning it could cause deeper rifts between the DPJ-led Governments from now and the business world. The Hatoyama administration continues to go ahead with economic policies that could antagonize the corporate sector. Sumitomo Chemical Co. Chairman Hiromasa Yonekura took office as the

new chief of Nippon Keidanren under uncongenial conditions in May, 2010. Nippon Keidanren is in the midst of modifying its unqualified pro-LDP stance by discontinuing its involvement in corporate donations. The new Nippon Keidanren is not fielding its own candidate in the Upper House election. As it witnesses its chains of money interlaced with politics dwindling further, “a dialogue with politics and society,” which the new Nippon Keidanren proposes, will be put to the test to see if it works.

“The difficulty for democrats is that the economic incentives for corruption are the inevitable side effect of a system that governs through elected representatives and uses bureaucratic agents to carry out policies” (Rose-Ackerman, 2010). Crooked politicians, bureaucratic profiteers, and the self-interested corporate sector may persistently seek to take advantage of their knowledge of loopholes in the law to improve their positions or make fortunes. Although I do not hold out much hope that the revised law will improve the situation dramatically, some institutional remedies are better than nothing and corruption demands that we focus continual attention at the grass roots level.<sup>9)</sup>

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9) For discussions on controlling corruption, see, for example, Klitgaard (1988); Anechiarico and Jacobs (1996); Rose-Ackerman (1999); Ofosu-Amaah, Soopramanien, and Uprety (1999); Williams and Doig (eds.), *Controlling Corruption (The Politics of Corruption: 4)* (2000); Caciagli and Kawata (2001).

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