

Comment: The institutional roots of the Japanese construction state

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The project by Thomas Feldhoff and his associates addresses a basic puzzle of the contemporary Japanese political-economy – why, despite so many wounds to the public good, does the nation's massive public works budget continue unabated? As their core hypothesis, the Feldhoff team proposes that Japan's "construction state" (*doken kokka*) is largely responsible for this morass. A construction state can be defined as a government which puts much more public investment into the construction of public works than can be realistically justified by public need. In their project, Feldhoff team proposes to investigate the composition and inner dynamics of Japan's "construction state" and its effects upon public policy and sustainability.

Lavish spending on public works has continued since the end of World War Two. In the early decades, it was justified as rebuilding the country and providing needed infrastructure. Over the past four decades, however, the practice has been subject to mounting, vociferous criticism from domestic critics. Increasingly, they have charged, Japan's public works spending has not served a genuine public need, particular not in comparison to budgetary rationality. Moreover, critics argue, these public works projects have damaged and destroyed the natural environment. The public works have increasingly encasing shorelines, riverbanks, and hillsides in concrete, paved flat land in asphalt, and penetrated mountains and sea beds with tunnels, but in response to no strong public need. In the 1990s, in particular, with a flat economy, continuing public works spending drove the Japanese government, including local governments, ever deeper into debt, with its national debt (ratio to GDP) now the world's largest. And yet, despite the rising chorus of criticism and the evident fiscal dangers, massive public works spending has continued unabated in Japan. Clearly, the practice must have its powerful backers, or it would collapse of its own weight.

At the heart of the construction state, keeping it going, the research team identifies an "iron triangle" composed of the three types of participants: construction ministries and agencies (MLIT, MAFF), the construction "tribe" of (largely LDP) politicians, and the construction and real estate businesses. This system works by money politics – the businesses collude (*dango*) to submit artificially high bids for constructing public works; the LDP politicians pressure the ministries to accept these high bids; in return for their help, the businesses "kick back" some of the overpayment to the politicians; the businesses provide the ministerial officials (that grant

them these contracts and prevent foreign competition) with lucrative retirement posts. The "construction tribe" politicians use the money to support their own election campaigns and those of younger politicians, whom they recruit into their factions. This flow of money comes out of the public purse, the national budget allotted to public works. The money allocated to public works in this way supports not only the members of the "iron triangle", but also a vast public employment system: 560,000 construction companies of all sizes, and their 6.7 million employees.

Having identified the societal mechanism that drives Japan's seemingly illogical, self-defeating public works policy, the research team seeks to explain "why" it exists and persists. Toward an explanation, the researchers apply a theory of rent-seeking. The construction companies are able to derive excess profits, or "rents", from their contracts with the government because they pay back the authorities (who give them the contracts) with campaign contributions, electoral support and lucrative retirement jobs. Along with the inflated contracts, the politicians and officials protect their clients (the construction companies) from critical scrutiny and outside competition for contracts. This system produces the enormous public bards noted above: fiscal crisis and environmental degradation. Yet, despite its accumulating public costs, even a reform-minded Prime Minister such as Koizumi cannot change the system, because the LDP, ministerial officials, and construction businesses have such "vested interests" in the status quo. Prominent scholars argue that these barriers to reform are insuperable, forcing Japan to continue on its present spendthrift course, leading to an eventual massive economic collapse.

The theory of rent-seeking assumes as its basis the rational pursuit of self-interest by the different parties. In this theoretical paradigm, self-seeking behavior is sufficient to explain the presence of the construction state and its mechanism. The posited type of rationality is concerned only with short-term personal economic gain.

The research team, however, while advancing the theory of rent-seeking as a central explanatory device, at the same time repeatedly uses the term "institutional" to describe the relationships among the three members of the "iron triangle" producing the construction state. To me, the juxtaposition of "rent-seeking" rationality with "institutional" explanation raises interesting theoretical questions. If pursued, these questions might yield additional insights.

Institutional theory has many "neo" varieties. In different ways, they all posit structures transcending and affecting individual interest. In political science and economics, neo-institutions are closely tied to rationality, while in sociology they are less so. Political science neo-institutionalism posits a set of sanctions (clear laws, rules) which reinforce certain behaviors. In economics, neo-institutions arise to minimize mutual costs, such as "transaction costs". But in sociology, most neo-institutionalism sees institutions as arising from informal relations, habit, imitation, and uncertainty. Could these distinctions further help us explain the persistence of Japan's construction state?

If we compare Japan with the United States in terms of pork barrel politics, we find plenty in both countries. Perhaps it is plentiful in Germany as well. In the US, the most prominent "iron triangle" is the "military-industrial complex". Congressional representatives are often judged on their ability to wring military construction con-

tracts out of the Federal budget, even if the Defense Department itself says it does not need or want the particular military hardware in question. These contracts keep local companies and their work force very profitably employed, often at exaggerated prices, just as Japan's *dango* system produces. Just as in Japan, such expenditures drove the US into massive public debt under President Reagan, and now threaten to do the same under President George W. Bush. One could mention many other examples as well. Yet, President Clinton was able to reverse this trend and start paying down the national debt.

The Japanese construction state and the US military-industrial complex seem produced and driven by the same short-range self-interested actors. The theory of rent-seeking would seem to explain them both quite well. Yet, in the US, as the Clinton example as well as other cases illustrate (for instance, the treatment of bad loans in Japan versus the US Savings and Loan crisis), sometimes at least the bad public effects of iron triangles are sporadically reversible. Why this difference? Could it happen in Japan? To dig deeper into this question, I would propose, we need to consider neo-institutional theory carefully on its own terms.

Both Okimoto and Evans advanced forms of neo-institutional arguments to explain Japan's (and Korea's) economic success, back when "the coming Japanese century" still seemed possible. They both argued that the government could persuade businesses to invest in ways that would best advance the collective (national) good, rather than their immediate individual interests (Okimoto 1989; Evans 1995). The Japanese construction state, though, where the state serves special interests, casts doubt on the breadth of their explanations. Despite this, these two studies identified a persistent institutional difference between the US and Japan – that Japanese government bureaucrats are deeply embedded in long-term relationships of mutual obligation with special interests, in ways that US government bureaucrats are not (though US politicians are more so).

In Japan, these relationships form networks among hundreds of actors arranged in hierarchical relationships. The precise configurations and memberships differ by policy "domain" – the type of policy at issue. The informality and sense of extended mutual aid inherent in these relationships marks them as a form of "social capital" of use to individuals seeking their own interests (Lin 1999). But beyond the concept of social capital, I would argue, people and groups are "embedded" in these networks (Granovetter 1985). That is, to some extent, the networks constitute the actors, rather than the more familiar reverse (in Western culture). In comparison, even the social capital networks are far less available to the mainly interest-driven actors in the US, and embeddedness is far less a social fact. The empirical contrast of policy networks of social capital in the US and Japan appears clearly in my own research (Broadbent 2000; Broadbent 2001).

The network embeddedness of Japanese policy-making, as well as its polity more widely, I would argue, helps explain the obdurate persistence of collective economic irrationality there, beyond what a theory of rent-seeking alone can provide. These networks have arisen from centuries of practice among a relatively small community of elites. Though the membership of the networks transforms over time, their densely integrated and hierarchical qualities persist as a culturally-legitimated social

form. This institutionalization of relations and network patterns has several societal consequences.

Under these circumstances, what looks to outsiders as individual rent-seeking becomes imbued with deeper, collective meaning. The morally-ideal political economy in Japan is not the efficient market, but the mutual aid community, among "we Japanese". The elites who participate in the policy networks make policy with a certain paternalistic responsibility and benevolence toward preserving the employment of their fellow countrymen, and their families. Though the resulting system seems to be heading toward imminent fiscal collapse, actually, the Japanese economy still has enormous reserves it can draw upon. Overall, counting all assets, Japan is still the world's major creditor economy, compared to what seem like more "efficient" market oriented political economies (most egregiously, the United States). Thus, to attribute the seeming morass of the contemporary Japanese economy entirely to the myopic rent-seeking of an "iron triangle" may be misleading. From the perspective of a sociological neo-institutionalism, there may be an inner logic to this situation that defies "objective" explanation.

At the same time, Japan's policy networks are only horizontal at the top, among the elites of different sectors, such as certain ministries, parties, and business and labor. From each peak, they stretch downward expecting obedience. These pyramids "consume" the great bulk of citizens, severely hampering the formation of an autonomous civil society and public sphere. Thus, when elite paternalism fails, there is little public resistance to correct it.

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