This book tells the story of the performance of Japan's economic and political institutions starting in the late 1970s through late 2007. The authors explain how Japan's flawed response to new economic, political, and technological forces, requiring more open markets and political institutions, ushered in almost fifteen years of economic and financial distress and lost economic and financial development potential from 1990 to 2005. Japan's impressive economic performance in the 1980s in fact masked an “accident waiting to happen”: the burst of the bubble in equity and real estate prices in 1990 and 1991. Japan's iron triangle of politicians, bureaucrats, and client industries, combined with a flawed financial liberalization process and policy errors by the Bank of Japan and the Ministry of Finance, brought Japan to an abyss of deflation, recession, and insolvency by the late 1990s. The turning point was the election of Koizumi as prime minister in 2001. Koizumi took advantage of important institutional changes in Japan's electoral system and policy making and implemented many changes in economic policy. The book explores Koizumi's economic reform, new developments in Japanese people's socioeconomic conditions, the politics and economy after Koizumi, and the economic and political challenges facing Japan in the new century.


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The beginning of the new century witnessed a major turning point in Japan’s economic and political performance and institutional design. Starting from a flawed financial liberalization process in the 1980s and the collapse of equity and land prices in the early 1990s, followed by a decade of economic and political distress in the 1990s, Japan started a transition toward more aggressive market reforms after Prime Minister Junichiro Koizumi came to power in 2001. By 2005, there were signs that the Japanese economy and financial system had finally commenced a sustainable recovery. Japan’s economic and political institutions have also undergone significant redesign.

The book is part of a new series of books by Cambridge University Press and focuses on Japan’s economic, political, and social development since 1980; hence, the title of this book – *Japan Since 1980*. Clearly the date of 1980 is somewhat arbitrary, especially when applied to more than one country. Nonetheless, important institutional changes took place in many developed and developing countries in the past three decades, with 1980 as a loose pivotal year. This is certainly the case for Japan.

It was not an easy task to provide an overview of Japan’s economic and political performance and institutional development over the past three decades. At a minimum, it required the collaboration of an economist and political scientist to tell the story properly. Our collaboration on this book essentially started when Cargill and Sakamoto met and participated in a conference at Southern Methodist University in 2004. The collaboration has been successful; each has learned from the other, and the book reflects a political-economy perspective of Japan’s development since 1980. The story also had to be told in such a way so as not to get bogged down in detailed discussion of economic and political institutions and events that would be of interest only to the specialist. We have made every effort to present the story in as clear a manner as possible so that the reader can obtain an overview of Japan’s economic and political development during the past three decades.
The book is not merely a narrative of events but adopts a framework and point of view consistent with a wide range of research published in the specialist literature in economics and political science. Many examples of this research are cited in the book. We also made abundant use of information provided by Japanese newspapers and government ministries and agencies. The new institutional design of Japan’s economy and political system is emerging, and Japan appears to have turned the corner on the severest of the economic distress of the past.

However, Japan continues to face serious economic and political challenges – the demographic challenges from a declining and aging population, the need to make the economy efficient and productive to survive and prosper in today’s globalized economy, and the need to enhance the government’s policy-making capabilities to generate policy innovations necessary to meet these demographic and economic challenges. The challenges are indeed formidable; however, we are cautiously optimistic that Japan will meet the new challenges with relative success. Although its path will not lead it to a Western set of economic and political institutions, Japan will continue to become more open economically and politically. Japan will remain one of the most important countries in the world for some time to come.

Cargill would like to thank students at the University of Nevada, Reno (UNR), his home institution, and the University of Hawaii at Manoa where he has been fortunate to teach during the summer for a number of years. Much of the material in this book was used in these courses. In fall 2007 at UNR, much of the manuscript was used in a class on Japan. He expresses appreciation to Susanna Powers, his graduate assistant, for reading the entire manuscript, preparing the index and for other contributions and, finally, expresses appreciation to Mary Cargill for her support.

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Abbreviations

BIS Bank for International Settlements
BOJ Bank of Japan
CEFP Council on Economic and Fiscal Policy
CGP Clean Government Party (also Komeito)
DIC Deposit Insurance Corporation
DP Democratic Party of Japan (formally DPJ in English)
DSP Democratic Socialist Party
FDIC Federal Deposit Insurance Corporation
FILP Fiscal Investment and Loan Program
FSA Financial Services Agency
GDP Gross Domestic Product
HGP High Growth Period
IMF International Monetary Fund
JCP Japanese Communist Party
JNP Japan New Party
JSP Japan Socialist Party (same as SDP)
LDP Liberal Democratic Party
LP Liberal Party
MITI Ministry of International Trade and Industry
MMD multimember district (an electoral system)
MOF Ministry of Finance
NFP New Frontier Party
OECD Organization for Economic Cooperation and Development
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<td>PCA</td>
<td>Prompt Corrective Action</td>
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<tr>
<td>PR</td>
<td>proportional representation (an electoral system)</td>
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<td>PSS</td>
<td>Postal Savings System</td>
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<td>QEP</td>
<td>Quantitative Easing Policy</td>
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<td>SDP</td>
<td>Social Democratic Party of Japan (formally SDPJ in English, the same as JSP)</td>
</tr>
<tr>
<td>SMD</td>
<td>single-member district (an electoral system)</td>
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<td>ZIRP</td>
<td>Zero-Interest-Rate Policy</td>
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