

# **Impersonal Mechanisms and Personal Networks in the Distribution of Grants in Japan**

*Steven R. Reed*

## **Abstract**

This paper shows that the distribution of grants to local governments is not significantly affected by individual political influence. Statistical analysis shows no link between the allocation of construction funds, for example, and the power of individual politicians. Instead, the distribution of such grants has tended to be stable across prefectures over time, indicating that bureaucratic formulae and historically determined entitlements dominate the distribution process.

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## **Foreword**

This paper was prepared for a project on Local Government Development in Japan. The project was organized by the World Bank Institute under the auspices of the Program for the Study of Japanese Development Management Experience financed by the Policy and Human Resources Development Trust Fund of the Government of Japan.

The principal objectives of this Program are to conduct studies on Japanese and East Asian development management experience and to disseminate the lessons of this experience to developing and transition economies. Typically, the experiences of other countries are also covered in order to ensure that these lessons are placed in the proper context. This comparative method helps identify factors that influence the effectiveness of specific institutional mechanisms, governance structures, and policy reforms in different contexts. A related and equally important objective of the Program is to promote the exchange of ideas among Japanese and non-Japanese scholars, technical experts and policy makers.

The papers commissioned for this project cover a number of important issues related to local government development in Japan. These issues include: the process of controlled decentralization; increasing political inclusiveness; redistributive impact of local taxes and transfers; allocation of grants; municipal amalgamation; personnel exchanges; personnel policies; agency-delegated functions; and local policy initiatives.

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# ***Impersonal Mechanisms and Personal Networks in the Distribution of Grants in Japan***

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## **Introduction**

Why should democratizing and developing nations study Japan? First and foremost, Japan is the single most successful case of the "copying" of Western models (Cole 1980; Rohlen 1992; Westney 1982, 1987). My reading of the literature leads me to the conclusion that the basic lesson to be learned from the Japanese experience is that success is based less on the original copying than on the effective adaptation of Western models to local realities that follows. Although the ideals of the free market, democracy, and rational bureaucracies may indeed be worthy of emulation, the Japanese model clearly indicates that a country can deviate from these ideals in systematic ways and still develop into a modern, market-based, industrial democracy. Free markets, unfettered by government intervention, democratic systems that accurately reflect the will of the people, and purely rational Weberian bureaucracies are Western ideals that the Western countries themselves do not entirely fulfill. Industrial democracies display a great range of variation along these dimensions, demonstrating that industrialization and democratization can be accomplished in many different ways.

The second most important reason for developing nations to study the Japanese case is that Japan retains a great deal of its "non-Western" culture, despite successful industrialization and democratization. As the first non-Western nation to industrialize, Japan is the test case for investigating the relationship between culture and development, and we can draw two major lessons from the Japanese experience. First, although developing nations may wish to believe that the Japanese case proves that they need not change their traditional cultures in order to industrialize and democratize, Japanese culture changed tremendously during the course of its industrialization. Industrialization is always accompanied by cultural change. Second, the change that occurred in Japan does not fit neatly into the category of Westernization. What emerged from the process of industrialization was neither a Western culture nor traditional Japanese culture, but a Japanese form of modern culture. The Japanese case indicates that an industrial democracy need not have a Western culture, but it also indicates that cultural change is a necessary part of the development process.

When reexamined in light of the Japanese experience, the Western European and North American cases lead us to precisely the same conclusion: cultural always changes during development, but the unique histories of nations always leave their mark on the modern cultures that emerge. Each Western culture differs from each of the others. What we

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loosely refer to as Western culture does not describe any particular Western nation, but is rather an ideal type, the kind of culture that is theoretically necessary for industrial development. The key question, therefore, is whether Japanese culture is non-Western in a sense that would force us to revise the theory.

Japan's greatest challenge to the Eurocentric theory of development may well be that modern Japanese culture is "personalistic," a characteristic associated with "pre-modern" European cultures. Japan may therefore represent a more personalistic alternative to the impersonal Western model. Japan is at once a personalistic network society, like most developing nations, and a bureaucratic society, which in many ways resembles the impersonal Weberian ideal of bureaucracy.

The classic Western argument is that personalism is dysfunctional for both industrialization and democratization. In the history of Western Europe, industrial development was associated first with the development of bureaucracies that recruited and promoted their personnel on the basis of merit, rather than on their personal connections, and applied their rules, the same for every client, impersonally and mechanistically. Similarly, economic development was associated with reliance on impersonal market forces operating through individual incentives. In both cases, personalistic networks were suppressed as corrupt and inefficient. Of course, a society of isolated individuals with no networks linking them is a contradiction in terms. Societies are networks. Personal networks, however, were either ignored or vilified in Western socioeconomic models, and efforts were made to minimize their effects on both politics and the economy. Personal networks (familism, tribalism, and the like) and corruption are often blamed for the failures of developing nations. Japan would seem to be an exception to this rule, a country with dense personal networks and high levels of political corruption, but also one of the most successful cases of industrialization in human history.

There can be no doubt about the high levels of corruption in Japan. Although recent events point to surprising levels of corruption in all of the industrial democracies, in the developed world, only Italy can safely be said to have higher levels than Japan (Reed 1996). In no country have so many prime ministers been investigated, tried, and even convicted on corruption charges before becoming prime minister (Sato Eisaku, Tanaka Kakuei, and Fukuda Takeo), and in no country have so many election campaigns focused on corruption scandals (Showa Denko in 1949, Shipbuilding in 1955, Black Mist in 1967, Lockheed in 1976, Recruit in 1989, and Sagawa Kyubin and Zenecon in 1993). The Zenecon Scandal, in particular, revealed rampant corruption in the construction industry.

At the same time, there can be no doubt that Japan is a bureaucratic country. The power of the bureaucracy has been a major theme in Japanese studies, documented repeatedly (the classic being Johnson 1982). Moreover, many of the goods with the greatest potential for use in building political machines are allocated through impersonal (often painstakingly mechanical) procedures. Most important, social status and income earning potential are allocated through the educational system, and entry into the top public schools is determined solely by impersonal examinations. Neither political pull nor financial contributions have any direct influence on this most important of resources, although one cannot say quite as much

of private universities or high schools. Equally important, entry into elite levels of the bureaucracy can only be accomplished through impersonal examinations.<sup>1</sup> Thus, one pillar of power and influence over policymaking is allocated independently of personal networks.

Japan seems to be both a personalistic network society and an impersonal bureaucratic system. One popular way of resolving this seeming contradiction is to posit a clean and efficient bureaucracy that prevents the corrupt and inefficient politicians from violating economic rationality in the making of public policy. In the 1980s the "politics up, bureaucracy down" literature stimulated worries that the politicians would get their hands on real power and kill the bureaucratic goose that had laid the golden egg of economic growth. This simple solution, however, does not stand up to the evidence.

### **A Clean Bureaucracy?**

Although we have no studies of bureaucratic corruption in postwar Japan, there have been bureaucrats implicated in all of the major political scandals, and some, such as the KDD Scandal of 1979, were primarily a bureaucratic affairs. Yamamoto Kenji (1992, p. 403–404) has assembled data from the annual *Police White Papers*. Using his data, we find that the number of national bureaucrats investigated on criminal offenses averaged about 200 yearly from 1956 through 1965, dropping below 100 each year only once before 1970. The number of cases dropped in 1970 and again in 1983, averaging only 22 each year from 1983 through 1988. Both the absolute levels and patterns of bureaucratic corruption deserve a great deal more study, but it is difficult to maintain the image of a "clean" bureaucracy in the face of these data. We should also note the recent spate of interest in *kan-kan settai*, the lavish treatment received by central bureaucrats when entertained by local bureaucrats lobbying for central funding for their public projects. National bureaucrats participate fully in Japan's personal networks and have been deeply involved in the corruption associated with those networks.

Most recently, the arrest of an ex-Ministry of Health and Welfare bureaucrat on corruption charges revealed a fully developed political machine (of unknown extent) designed to extract resources from companies in return for contracts to build and run welfare facilities. These resources were then used to fund the electoral campaign of at least one enterprising young bureaucrat.

A second reason to reject the "dirty politicians, clean bureaucrats" solution is that historically, ex-bureaucratic politicians have been as corrupt as have party politicians. Prime ministers Ikeda Hayato and Sato Eisaku, both ex-bureaucrats, presided over a period that was relatively free of scandals, but both were also deeply involved in the Shipbuilding Scandal of 1955. Sato required the intervention of Prime Minister Yoshida to avoid prosecution, and Ikeda might also have been put on trial if the investigation had been allowed to continue. The literature on corruption in Japan has correctly focused on the role of party politician Tanaka Kakuei. He, and those who learned their politics from him, changed the face of Japanese politics (Johnson 1986). Yet the ex-bureaucrats who opposed Tanaka were not necessarily

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1. The genesis of this impersonal, bureaucratic mechanism was partly a response to a major scandal in 1892 (Mitchell 1996, p. 21).

clean. His main rival, ex-bureaucrat Fukuda Takeo, was tried on bribery charges for his role in the Showa Denko Scandal (he acknowledged taking the money, but said he did not know it was a bribe). Fukuda could be considered "clean" only in comparison with Tanaka, if at all.

We should add that the *zaikai*, big business in Japan, has also fallen under the shadow of corruption recently. In 1992 the chairman of the Federation of Economic Organizations (*Keidanren*) was able to say, "No one ever heard of Kyowa until the scandal occurred. Sagawa is a company that recently grew into prominence. Japan's *zaikai* is not that corrupt." (quoted in Tominomori 1993, p. 90). No only did the chairman conveniently forget the Showa Denko and Shipbuilding Scandals of the 1950s, which implicated leading companies in their respective fields, but the very next year the Zenecon Scandals implicated the top companies in the construction industry. Recent investigations into the *jusen mondai* (Japan's version of the U.S. Savings and Loan Scandal) has revealed many illegal practices in the financial sector. A common theme in this and several other recent incidents has been the close personal connections between the regulated industry and the bureaucrats assigned to regulate them. The network society is not limited to politicians. Both networks and bureaucracy permeate Japanese society.

The "clean bureaucrats, dirty politicians" hypothesis simply does not fit the data. Woodall (1996) has presented a more promising approach based on the dual-economy concept familiar from studies of economic development. Instead of trying to characterize the Japanese economy as either a modern impersonal market system or an impenetrable system of personal networks, we would be better-off recognizing that specific markets in Japan (as elsewhere) are characterized by different mixes of these two mechanisms.

### **Dirty Politics?**

In democratic theory, the contrast between impersonal mechanisms and personal networks involves the difference between elections based on party platforms and elections based on pork barrel projects, constituency service, and personal favors. A democracy based on candidates competing to build a personal base of support by doing favors for individual constituents and acquiring centrally subsidized construction projects for their own electoral districts is quite different from a democracy based on political parties competing for votes by presenting coherent policy packages. Although the personal vote strategy is important in most democratic systems, including the United States and Britain (Cain, Ferejohn, and Fiorina 1987), many studies have argued that the personal vote is particularly prominent in Japan (Cox and Thies 1998; Reed 1994). Certainly, most of the recent scandals, from the Lockheed Scandal in 1974 through the most recent Recruit and Sagawa Kyubin Scandals, have involved politicians renowned for the ability of their political machines to both gather the vote and to get pork barrel projects for their districts.

We should hasten to note that these recent revelations of corruption hardly make Japan unique in the industrial world. Although Japan has a serious corruption problem, one would be hard-pressed to find a country without a serious problem. Corruption is simply part of human society, and industrial democracies are no more exempt than any other kind of regime (Heidenheimer 1993; Markovits and Silverstein 1988). The best study of corruption in

public bureaucracies with respect to international business finds Japan to be in the middle of the pack, not as clean as New Zealand or Singapore, quite similar to France, and much cleaner than Italy or Spain (Heidenheimer 1996). The amount of corruption resulting from Japan's network society is not significantly different from that produced by Western cultures. Neither is this discussion of corruption in Japan necessarily a damning critique. Although corruption is morally and legally wrong by definition, at times it may be functional for both democracy and development. The effects of various types of corruption on development, democracy, economic efficiency, and public policy are open empirical questions.

Thus the puzzle remains: how are personal networks combined with impersonal bureaucracy in Japan? In this paper, I will deal with a single aspect of this puzzle: the allocation of central government grants-in-aid to local governments. I will focus on the question: Are powerful politicians able to get more central aid for their districts, or does the bureaucracy allocate those funds in an impersonal, mechanistic manner?

### **The Distribution of Central Government Grants-in-Aid**

In a classic work on the relationship between central and local governments, Tarrow (1977) contrasted the cases of Italy and France. In France, subsidies were allocated on bureaucratic criteria. A communist mayor received his share of grants from the anti-communist conservative national administration, by simply filling out the forms properly. In contrast, Italian local governments had to use political influence to get their share of central government funding. In my own study of Japanese local government, I concluded that Japan was much closer to the bureaucratic French than the political Italian model. However, my evidence was indirect. I simply looked at the examples used to illustrate political influence over grant allocation and found them unconvincing (Reed 1986, p. 38–40).

First, much of the intergovernmental financial system is allocated by formula and, although political battles are fought over the formula, the year-to-year allocation is automatic and cannot be influenced by politicians. The area of automatic allocation includes not only the local allocation tax, but also many programs classified as grants-in-aid. For example, many educational grants are allocated according to the number of students and teachers. To my knowledge, no one has ever calculated the portion of grants allocated by competition among local governments, but it is probably much less than half of total intergovernmental transfers. If politics influences the allocation of central grants, it is only with respect to this limited number of programs. Indeed, Japan's relatively small bureaucracy tends to prefer automatic allocation mechanisms, which are easier to implement and minimize the temptation to politicians to attempt to influence the process.

The Japanese literature is full of anecdotes of political influence over grant allocation, but most are unconvincing because the implications are not spelled out and counter-hypotheses are not tested. For example, in the most systematic treatment to date, Hirose Michisada (1981, pp. 61–62) offers the example of Oita's second district in 1980. As he tells it, Nishimura Eiichi built his electoral machine on the basis of his influence with the Ministry of Construction. His campaign organization was an alliance of town and village mayors interested in obtaining subsidized construction projects. Despite his record of service,

Nishimura lost in 1980, presumably because local construction companies switched their allegiance to Tawara Takashi, an ex-bureaucrat from the Ministry of Construction. This is a highly entertaining and plausible story, with greedy mayors switching allegiances when a better offer came along, but Hirose has omitted several relevant facts. Tawara first ran in 1979, when Nishimura finished first and the ex-bureaucrat Tawara finished second. In 1979 Nishimura gained votes despite the competition from Tawara, and when he lost in 1980, his vote total only dropped by 2,266, and he finished a close runner-up. Meanwhile, Tawara gained 11,647 votes, largely, it would seem, from two retiring independents, not from Nishimura. The evidence does not support the story of Tawara taking the construction vote away from Nishimura.

Many of the most plausible anecdotes of political influence over grant allocation evaporate on closer investigation. In many cases, the implications of the anecdote are left to the reader's imagination, on the assumption that the most cynical interpretation must be the right one; alternative interpretations are simply ignored. Nevertheless, there is so much smoke that there must be a fire of some magnitude somewhere. Moreover, debunking evidence of political influence does not amount to positive evidence supporting the bureaucratic model of grant allocation. Clearly, a more systematic approach is called for.

To my knowledge, the first systematic research in this area is that by Wada Jun'ichiro (1985, p. 102). Wada's dependent variable is the amount of investment by the national government (*gyosei toshi*) in each prefecture in 1980. His independent variables are the number of representatives elected from that prefecture and the number of representatives from the Liberal Democratic Party (LDP), the party in power at that time, and the opposition parties, respectively. He also controls for land area and land prices in the prefecture. He finds that one representative is worth an extra ¥38 trillion in public investment. When one distinguishes between governing and opposition parties, an LDP dietman is worth ¥41 trillion, while an opposition dietman is worth only ¥34 trillion. This is a plausible and provocative finding, but it is open to two interpretations.

The mechanism producing the observed relationship between number of representatives and public investment might be the influence of individual dietmen on the personal network model. Each dietman lobbies hard to bring home pork barrel projects to his district, and each dietman has some influence over the allocation of such projects (dietmen in the ruling party have somewhat more influence than those in the opposition). Thus, prefectures with more representatives, and more representatives from the LDP, get more money. However, a party platform/impersonal mechanism interpretation is also possible. The LDP seeks the rural vote by promising to enact policies that favor agriculture and rural development and when they win, they enact these programs. Partly in response to these promises and policies, rural areas elect more LDP dietmen than do urban areas. The observed correlation between LDP dietmen and public investment could therefore be caused not by personal networks, but by the LDP's policy preferences. If the mechanism is a general LDP bias toward rural areas, then rural areas would get more, and urban areas less, investment, independent of the efforts of individual dietmen.

In a large-scale systematic analysis, Woodall (1996, pp. 117ff.) analyzed public construction expenditures by district in an attempt to estimate the influence of LDP politicians, especially those from the so-called "construction tribe" (*kensetsu zoku*). He was unable to find any influence and was forced to conclude that "LDP legislators and their constituents have voracious appetites for pork, but the allocation of the bacon is unusual in that the legislators do not channel the bulk of distributive benefits directly to their home prefectures" (Woodall 1996, p. 17).

In the most systematic analysis to date, Kobayashi (1997) examined two models of Japanese democracy, one based on the impersonal mechanism of party platforms, and the other on personal networks and pork barrel projects. His overall finding is that the data fit neither model very well, although he personally favors the latter, pork barrel model. With respect to agricultural expenditures, however, he presents a clear finding from a well-specified model (Kobayashi 1997, p. 136). According to his path analysis, municipal expenditures for agriculture are determined, first, by the percentage of the population working in the primary sector (path coefficient = 0.61); second, by the proportion of the population that belongs to agricultural cooperatives (path coefficient = 0.31); and finally, by the proportion of the vote cast for the LDP in general elections (path coefficient = 0.09). Although, for our present purposes, the number of LDP dietmen would have been preferable to the LDP's proportion of the vote, this finding indicates that LDP politicians influence budgetary allocations, at least in agriculture, although politics is much less influential than objective need or interest group power.

What we need is a well-articulated model of grant allocation that includes both political and bureaucratic variables, plus any necessary control variables. We are still far from producing a general model of grant allocation. Nor will one be presented in this chapter. I will, however, present an analysis designed to get at the influence of powerful individual dietmen.

### **The Research Design**

The ideal place to study the influence of a single powerful politician would, without question, be Niigata third district, home of Tanaka Kakuei (Fukuoka 1985; Johnson 1986). Unfortunately, such a study is complicated by the aggregation of the relevant data at either the prefectural or the municipal level. Any analysis of a single electoral district that includes more than one municipality, but less than a whole prefecture, would be beset by a series of cross-level inference problems. A second and related problem is that of a comparative baseline. If one wishes to go beyond the limits of a case study, one must find relevant comparisons. If we see a construction project in Niigata third district that local informants attribute to Tanaka's influence, we need to know if other, similar districts obtained such projects without political influence, and it is not clear what other districts should be included in the comparison. Fortunately, one can solve these and several other problems by comparing prefectures that, during the era of multimember districts (1947–93), consisted of a single electoral district (*zenken ikku*).

During the period in question, Japan contained nine single-district prefectures, two of which produced powerful pork-barrel politicians from the Tanaka school. The successor to

the leadership of the Tanaka faction was Takeshita Noboru of Shimane Prefecture. Even before the succession took place and before Takeshita became prime minister in 1987, the rumor mill had identified Shimane as the next Niigata third district. Takeshita was forced to resign as prime minister in 1989 because of the Recruit Scandal. His successor as chairman of the Tanaka-Takeshita faction was Kanemaru Shin from Yamanashi, another single-district prefecture. Kanemaru never became prime minister, preferring instead to work backstage. He was famed for his skills at behind-the-scenes manipulation and became internationally famous when his involvement in the Sagawa Scandal led to the discovery of incredible piles of money in his home and office. The records uncovered during the Kanemaru investigation produced the Zenecon Scandal, which implicated the whole construction industry. If Takeshita and Kanemaru proved unable to influence the allocation of public funds for their home prefectures, we can rest assured that no politician (with the possible exception of Tanaka himself) could do so.

With the exception of Nara Prefecture, all of the nine single-district prefectures are relatively rural and should therefore make similar demands on the central government. Tottori is a close match for Shimane in that they share a common border and are two of Japan's poorer prefectures. I will therefore compare two prefectures represented by powerful politicians (which I will call the *political prefectures*)—Shimane and Yamanashi—with seven prefectures not blessed with such powerful representation—Tottori, Fukui, Shiga, Saga, Tokushima, Kochi, and Nara.

The variable of interest is the amount of public funds spent on "regular construction" (*futsuu kensetsu jigyouhi*). The choice is clear for several reasons. First, the construction industry has been at the heart many scandals because it has been the key to building powerful political machines. Tanaka Kakuei's district was famed for the amount of construction carried on there (Fukuoka 1985, Chapter 9). Tanaka, Takeshita, and Kanemaru were all leaders of the "construction tribe" (*kensetsu zoku*) who were reputed to have great influence over the construction industry. As the Zenecon Scandal revealed, the construction industry was sufficiently impressed with their influence to contribute huge amounts to their campaign funds (Woodall 1996, p. 40). Second, when compared with the other industrial democracies, the Japanese government stands out for the large amounts spent on fixed capital formation (Sakakibara 1991, p. 60). The Japanese model combines the strategic planning of the Ministry of International Trade and Industry with the massive expenditures of the Ministry of Construction. Finally, Kohno and Nishizawa (1990) found that the national aggregate figures for regular construction expenditures respond to political factors: whenever the LDP found itself in electoral difficulties, it increased regular construction expenditures. We know that the massive amounts spent on construction were one secret of the LDP's electoral success. We would also like to know whether individual politicians used their influence over construction projects to enhance their reelection chances.

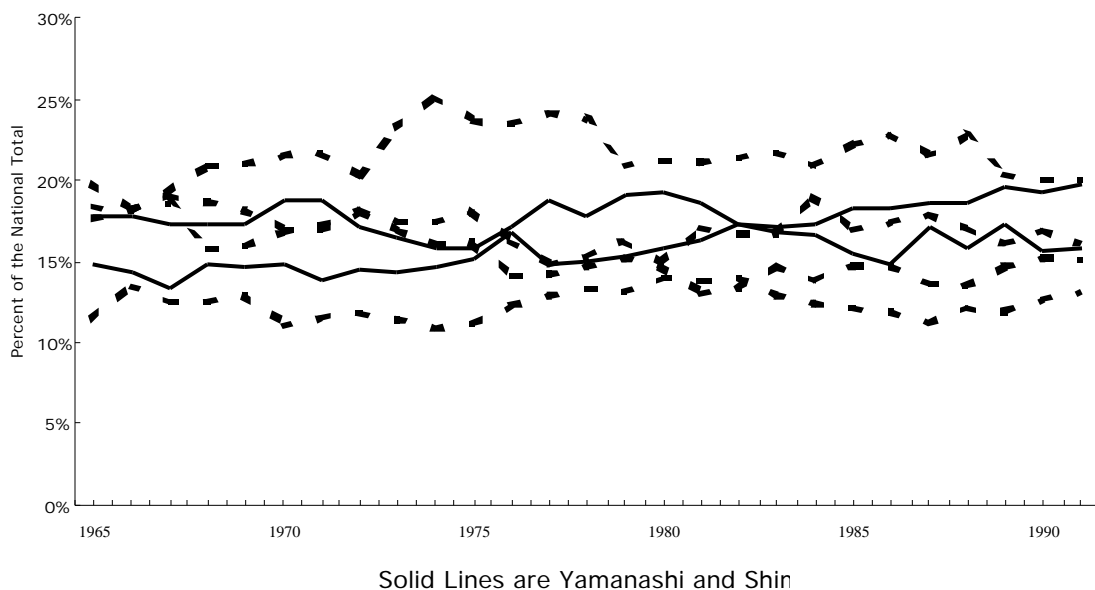
## Analysis

Our hypothesis is that the two prefectures represented by powerful construction-tribe politicians will be treated differently from other prefectures in the allocation of

construction expenditures. The null hypothesis is that all prefectures are treated similarly. My strategy is to plot regular construction expenditures over time and look for any patterns that distinguish Shimane and Yamanashi from the other four prefectures. I first converted all the figures to percentages of total national expenditures to facilitate comparison. In each figure, the two political prefectures are represented by bold lines, and the four other prefectures are represented by thin lines.

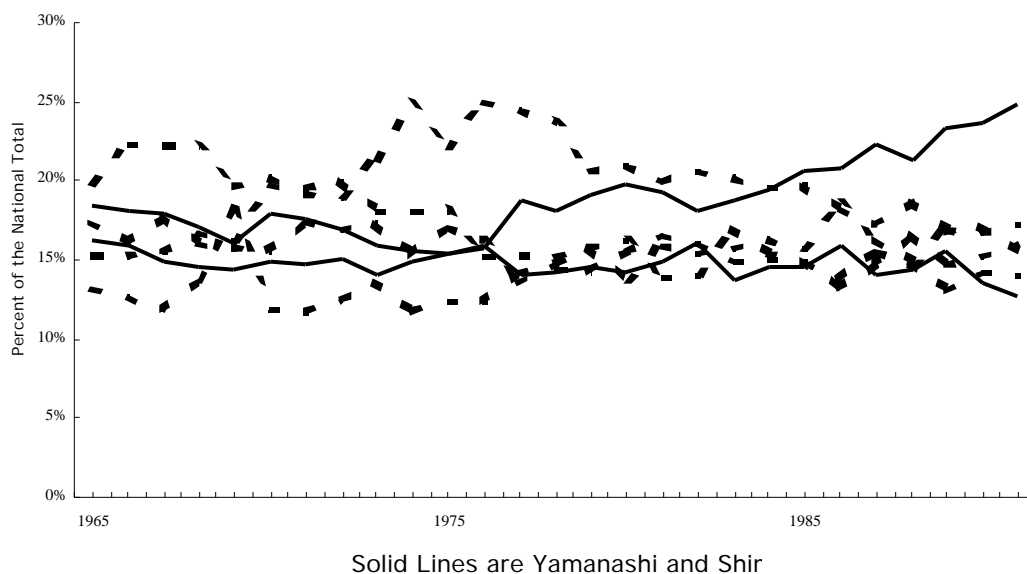
Figure 1 presents the results for total regular construction expenditures. Overall, our findings are similar to Woodall's (1996), in that the rank-ordering of the prefectures remains relatively stable over time. The two political prefectures are in the center of the graph, and stay there throughout the period. The higher political prefecture is Takeshita's Shimane, which was losing ground, dropping from fifth to seventh place, until the trend was reversed around 1976, the year Takeshita became minister of construction. By the mid-1970s, Shimane had moved into fourth place among these nine prefectures, and stayed there throughout the period under analysis. Shimane also seems to make significant gains in the late 1980s, and we should note that Takeshita became prime minister in 1987. The lower political prefecture is Kanemaru's Yamanashi, which starts out eighth, but moves up to seventh in the mid-1980s. Although Yamanashi fails to pass up any of the other prefectures in the rest of the study period, like Shimane, it makes gains as a percentage of national expenditures in the late 1980s. Kanemaru was minister of construction during the 1973 budgetary process, but it is difficult to see any gains for Yamanashi in that year. Although the timing of changes is somewhat suggestive, it would be difficult to make the case from this data that the two political prefectures differ significantly from the other seven.

**Figure 1: Regular Construction Expenditure (% of the National Total)**



A more direct test of the hypothesis focuses on construction projects that receive central government subsidies. The data is presented in figure 2, but the political prefectures still look much like the others. Shimane does make a jump in 1977 and Yamanashi did very well in 1991, but the two political prefectures do not follow any distinctive pattern.

**Figure 2: Subsidized Regular Construction Expenditure**



Based on these data, we are forced to reject the hypothesis that politically powerful politicians are able to influence the allocation of central government subsidies. Nevertheless, some of the findings indicate that further research is warranted. The timing of the shifts in the Shimane data imply that the most likely hypotheses involve formal positions, most notably minister of construction. As it turns out, single-district prefectures are a particularly appropriate data set for testing the hypothesis that ministers of construction influence the allocation of construction grants, because six ministers came from these nine prefectures during the period under investigation: Hori of Saga in 1968, Tsubokawa of Fukui in 1970, Kanemaru of Yamanashi in 1973, Kariya of Kochi in 1975, Takeshita of Shimane in 1976, and Sakurauchi of Shimane in 1978. (The years given are not the years of appointment, but the years of the budget overseen by the minister; each minister was in charge of only one budget process.)

The question is whether regular construction expenditures tend to rise when a representative from the prefecture becomes minister of construction. The dependent variable is regular construction expenditures for the prefecture in that year, and the basic control variable is total national regular construction expenditures. A simple dichotomous variable, *MoC*, which takes the value of 1 in the year in which the prefecture has a minister of construction and 0 otherwise, is tested first. The hypothesis is further tested that once a politician has been minister of construction, he has established the personal connections necessary to influence construction expenditures, and maintains those connections. This

hypothesis is represented by two variables. First, the hypothesis of a quantum jump in construction expenditures (statistically, a change in the intercept) in prefectures with former ministers of construction is tested using a dichotomous variable, *EX – MoC*, which takes the value of 1 when a politician from the prefecture becomes minister of construction, and stays 1 until that politician retires from politics. Second, the hypothesis that prefectures consistently receive greater proportions of national expenditures while they have active former ministers of construction is tested using the multiplicative interaction *between EX – MoC* and total national expenditure (statistically, a change in slope). The results are presented in Table 1.

**Table 1. Statistical Analysis of Construction Expenditures**

Item	All projects	Subsidized projects
National expenditures	.010157	.00099
MoC	6,053,778 (NS)	281,770 (NS)
ex-MoC	-12,790,891	-2,060,463 (NS)
Interaction	.001511	.000022 (NS)
Constant	-2,453,610 (NS)	780,269 (NS)
R-square	.890	.761

*Note: (NS) indicates that the relationship is not significant at the .05 level. All other coefficients are significant at the .005 level. The negative coefficient for ex-MoC indicates that, in the unthinkable event that total national expenditures were to fall to zero, expenditures in prefectures with former ministers of construction would be less than those without. In reality, it only means that the slope for former MoC prefectures tilts up, which produces a negative number in an impossible scenario.*

We find that former ministers of construction do indeed influence construction expenditures. There is no significant change in the year of appointment, but the continuing influence is clear. The effect is small but highly significant. When the same analysis is performed for subsidized projects, however, we find no evidence of political influence. This surprising result seems to indicate that personal networks influence the construction industry, but not the bureaucrats in the Ministry of Construction who allocate subsidies. While this may turn out to be the case, we should not push this interpretation too far, based on a single finding. It appears that we cannot expect definitive results on the question of personal political influence over the allocation process in the near future. Some conclusions are nevertheless warranted.

The clearest single finding is that the influence of powerful politicians is difficult to document. This finding is very important. Even if politicians do influence the allocation of

grants, the effect is subtle, and not sufficiently powerful to upset the overall geographical pattern of public policy. Reviewing all research findings to date, we can conclude that powerful individual politicians do sometimes influence policies, but that politics influences policy more through the impersonal mechanism of party platforms, elections, mandates, and public policy than through personal networks. LDP public policy definitely favors rural areas, but the influence of individual politicians is circumscribed. The influence of personal networks appears to be limited to certain kinds of policies; even when influence is present, it is not strong enough to substantially alter national public policy. Thus, the conclusion of my earlier study still stands: "In Japan, as in France, bureaucratic channels to the central government are more important than political ones." (Reed 1986, p. 40)

### **Bureaucratic Allocation and Political Power**

With a few still ill-defined exceptions, publicly funded construction projects in Japan are allocated according to impersonal political and bureaucratic criteria and are seldom influenced by individual politicians. Evidence for the influence of personal political networks is spotty, and the effects found are small. How can this finding be reconciled with all of the anecdotes alleging political influence and the indisputable fact of widespread corruption?

First, we should be very clear about what these findings mean and what they do not mean. We have not proven that seemingly powerful politicians actually have no power. We do know that they seldom influence policy to a degree that can be detected using statistical techniques. However, an infinite number of other personal network and political hypotheses sound plausible and have yet to be tested. Until Kohno and Nishizawa (1990) hit upon analyzing regular construction expenditures, little evidence supported the idea of a political business cycle in Japan. Similarly, someone could discover the proper dependent variable, and reverse the findings on the allocation of grants-in-aid. Nevertheless, the most likely policies have been analyzed, and the findings are consistently negative.

Politicians may use their power for different purposes. For example, with his own reelection secure, powerbrokers such as Kanemaru may use their power to benefit other politicians in order to incur their gratitude. Note, however, that if Kanemaru had great power and used it to help his weaker followers, the result is still a system in which construction expenditures are spread evenly across the nation.

Similarly, demonstrating that powerful politicians did not significantly affect the distribution of construction grants does not prove that the allocation process is fair, objective, impersonal, and bureaucratic. A purely bureaucratic allocation process, with no political interference, would be impersonal, objective, and easily implemented, but it would not necessarily be rational or fair. People tend to confuse objectivity with fairness, precisely because modernization in the West was linked to the elimination of personalism through the use of objective criteria (Porter 1995). For example, allocating educational expenditures based on the percentage of the population over the age of 65 would be perfectly objective because no personal opinion or political pressure could influence the outcome, but it would also be completely irrational and totally unfair. Allocating educational expenditures on the basis of the percentage of the population of school age would be equally objective, much more

rational, and fairer. Rationality and fairness are much more difficult to achieve than objectivity. Both rationality and fairness require more complex calculations than does simple objectivity. Generally speaking, bureaucrats tend to favor objectivity because objective criteria are easier to implement. It is politicians who often demand more rationality and fairness, thus complicating the decision-making process. Even in a purely Weberian bureaucracy, with no personal networks or corruption, absence of political interference would not guarantee either rationality or fairness.

Similarly, political influence need not mean personal networks and corruption. Democratic politics based on voters choosing between competing party platforms—with the platforms that receive the greatest support being enacted after the election—is an impersonal process analogous to the market in economics. The influence of electoral politics is clearly visible in the enactment of laws that favor rural areas, which tend to vote LDP. One may well disagree over whether such a policy is economically rational or fair, but it is certainly democratic.

Our basic finding is that the influence of powerful politicians does not substantially alter the allocation of grants to local governments in Japan. Although this does not mean that politicians are powerless, or that the allocation process is fair and rational, it is still difficult to reconcile these findings with widespread corruption. How can we reconcile these two findings?

#### *Political Competition and Grant Allocation*

First, many of the anecdotes alleging political influence are simply false. They are credible because they are interesting stories that play on our sense of cynicism. While such stories are good for selling newspapers, most evaporate on closer inspection. Second, such anecdotes also help politicians' reelection campaigns. "Admitting" that one has undue influence over the grant allocation process is a great way of claiming credit for construction projects that would have been built with or without political intervention (Reed 1986, p. 40; Woodall 1996, pp. 119 ff.). News organizations and academics are often unduly impressed with such statements because the politician seems to be admitting to something embarrassing, that the allocation of grants is not fair but is biased by political considerations. While embarrassing to academics, such "admissions" are actually a politician's way of claiming credit and seeking votes. Our sense of cynicism should be applied to the politicians' boasts of influence, not their admissions of bias.

The LDP faced serious logistical problems in the political allocation of grants. They could discriminate in favor of rural areas, where they were strong, but from 1955 through 1990, every electoral district in Japan was represented by at least one LDP dietman. Any time a district failed to elect a single LDP candidate, it was a newsworthy event. It was also a temporary phenomenon, because the losing LDP candidate would spend the time between elections campaigning to regain his seat. It proved impossible to deny a grant to a prefecture headed by an opposition party governor without simultaneously hurting the reelection chances of several LDP dietmen. It proved easier to leave the allocation of grants up to the bureaucracy and to claim credit for whatever resulted. The Japanese electoral system has been

widely blamed for the prominence of pork barrel politics, but by ensuring that each district was represented by at least one LDP politician, it may also have guaranteed a relatively equal distribution of the pork. In support of this hypothesis, we might note that, since the introduction of single-member districts in the 1996 election, complaints of discrimination against districts that did not elect LDP candidates have increased greatly.

We should note the similarity of this finding to findings on the budgeting process in general, and Japanese budgeting in particular. The budget-making process is surrounded by frantic lobbying, but the result is not much change from the previous year. Japanese budgeting in particular is characterized by a principle of "fair shares" (Campbell 1977, p. 272 ff.). We might also include the allocation of posts in the cabinet. Intense factional battles result in a proportional allocation of posts to each faction. In the allocation of central grants, budgeting, and the allocation of cabinet posts, no one wants to find out what would happen if they were the only ones who did not fully participate in the lobbying process. Even if all efforts cancel each other out in the end, the effort may be necessary to make certain that one gets one's fair share. It may also be that everyone gets their fair share only because everyone fights equally hard.

### *The Market for Corruption*

Why do companies, particularly construction companies, pay such impressive bribes to politicians? Surely they must be buying something with all of that money. Actually, the question of what companies buy with their political contributions has proven a surprisingly difficult puzzle. Common-sense notions simply do not fit the data. Nevertheless, some recent work in the United States gives us some clues to the Japanese case (Hall and Wayman 1990; Snyder 1992). First, we cannot ignore the possibility that politicians are able to fool both companies and the voters about the extent of their influence. We can rest assured that there are cases of companies paying bribes to people who have no real influence, but that cannot explain the long-term relationships that develop between politicians and companies.

Although one normally imagines that companies are buying pieces of public policy with their contributions, when one looks closely at the major scandals around the world, one often finds that the effects on public policy were trivial. Most issues turn out to be low-salience policies that, except for the scandal, would never have attracted public interest. Sometimes the issue is a minor regulation that affects only the single company paying the bribe. Other times the cost to the government is minor in the context of the total government budget, but represents a significant profit to the company involved. Companies and countries operate at different levels of financial magnitude: a miniscule change in public policy can be a major factor on the company balance sheet.

In the construction industry, the issue is seldom whether to build the project, but which company will be chosen for a particular contract. Issues of public policy are not directly involved. If all of the companies are qualified to carry out the contract and standards are not compromised, the only effect on public policy is to raise costs above a level that could theoretically be achieved in an imaginary free market. Not only is this standard unrealistic for the construction industry, but the open bidding systems recommended by

neoclassical economists do not work well in practice, and they cannot be made to work as predicted, even under controlled laboratory conditions (Kagel 1995, pp. 550 ff.). Instead of comparing actual markets to abstract mathematical models, we would be better off studying the actual results produced by real markets in different times and places. If this were done, I would not be surprised to find that the construction market in Japan from the 1960s through the 1970s was one of the most effective ever created. It produced large quantities of high-quality, high-cost projects (Woodall 1996, p. 49). Costs were quite high, but the tradeoffs between effectiveness and efficiency might well have been worth the cost. The key questions about the Japanese construction industry are how standards were maintained and what the costs were of high quality and high effectiveness.

A third possible reason to pay politicians is for their help in maintaining a collusive arrangement. Woodall (1993) argues that the key to Kanemaru Shin's power in the construction industry was his effort to stave off foreign pressures to open up the bidding system and to reestablish an orderly allocation mechanism once the bidding system was loosened somewhat. Neoclassical economics glorifies competition and vilifies cooperation, but that should not blind us to the powerful incentives for collusion in many markets, most notably in the construction industry. Under some circumstances, "collusion" can produce better results than competition, both in theory and in practice (Reed 1993, p. 125). It is worth considering the hypothesis that the "collusive" market produced by the Japanese designated bidding system, with about ten participants, was one secret to Japan's highly effective, high-quality, high-cost construction industry.

From a moral and legal standpoint, we must condemn corruption, but blanket condemnation is of little help in the making of public policy. Similarly, simply presenting ideal mathematical models of an economy unfettered by government intervention is of little help to the practical policymaker. What we need are more empirical studies of the actual effects of particular types of corruption on public policy (Heidenheimer 1993) and the actual operation of markets in the real world. The Japanese case would seem to suggest that neoclassical economics tends to underestimate the importance of effectiveness relative to efficiency, and to downplay the market forces producing cooperation relative to those producing competition.

I am definitely suggesting that future research pay greater attention to the possible advantages of cooperation, instead of focusing solely on the costs of collusion; that future research should consider tradeoffs between effectiveness and efficiency, instead of focusing exclusively on the latter; and that rather than damning personal networks as corrupt, we should analyze their effects, both positive and negative, in specific markets.

I am definitely not suggesting that collusion is a good thing, nor that effectiveness is more important than efficiency, nor that personal networks should be encouraged. Collusion has serious costs; effectiveness is only one criteria among many; and personal networks definitely do produce corruption and can pervert public policy. The proper balance between competition and cooperation, and effectiveness and efficiency, and the role of personal networks, are currently unresolved questions for future research.

## **Lessons for Developing Countries**

The primary lesson to be learned from this exercise that is a personalistic culture can flourish in a bureaucratic environment and that bureaucratic decisionmaking can dominate distributive decisions, even in a personalistic culture. In Japan, personal networks, collusion, and even political corruption failed to alter the basically bureaucratic process of allocating central grants to local governments. Although a nation need not develop a Western-style individualistic culture in order to industrialize and democratize, it does appear necessary to create institutions that are impervious to personalistic manipulation and operate according impersonal rules. The key institutions that must operate impersonally would appear to be the military (Japan's major failure in the prewar era; see Humphreys 1995), the bureaucracy, the educational system, and the market, not necessarily in that order. Once a set of core institutions has been developed (admittedly, no easy task) a personalistic culture can flourish; it may ameliorate some of the social and psychological side effects of development and, in some instances, prove more effective than the original Western models.

Finally, I would like to suggest that the particular combination of political and bureaucratic considerations that determined the allocation of grants in Japan did indeed promote both economic growth and political democracy. First, the simple idea that bureaucrats always make economically rational policy and that politicians always make bad economic policy does not match the Japanese data. Although the industrial policy of the Ministry of International Trade and Industry (MITI) played a major role in Japanese economic growth, bureaucrats also made their share of errors. Sometimes the policies recommended by economists are overruled by political considerations, and the result is economic growth. The best Japanese example concerns small businesses. MITI pursued the "economically rational" policy of emphasizing big business and internationally competitive sectors, but political pressure forced them to subsidize small business. This politically motivated, economically irrational policy of supporting small businesses proved to be one of the most effective economic policies that the Japanese government had ever produced (Friedman 1988).

A second case is related to grant allocation. Neoclassical economists often argue for the efficiency of focusing development efforts in designated geographical areas. Japan did not follow this advice, primarily because of the political pressures to protect the LDP's rural electoral base. Kabashima (1984) has eloquently argued that one secret of Japan's geographically balanced development and equal income distribution is the redistribution of income from urban to rural areas, clearly a political decision. Similarly, many other scholars have demonstrated that the local allocation tax does not equalize revenues, but actually redistributes revenues to rural areas. If one secret of Japanese economic success was political stability, one secret of that political stability was the balanced growth produced by a grant allocation system biased in favor of rural areas.

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