Informal Aspects of Japanese Economic Policy

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3.1 Introduction

"... It appears that the informal structure of transactions in Japan is receiving greater attention as scholars seek to approximate empirical reality more closely".

Murakami and Rohlen (1992)¹

As has become clear from the previous analyses of the Japanese political economy and economic system, a significant number of scholars stress the importance of informal factors in the public-private sector relationship in Japan. For example, Murakami (1987) introduced the informal organization approach, which "... provides the most useful explanation of the key feature of the postwar Japanese economy"². In Upham (1987), it is stated that "... informality is preferred by every level of government and in all areas of government-citizen contact" [Upham (1987), p.204]. And Haley (1991) puts it very strongly regarding the enforcement of government policy: "What distinguishes Japan is the persuasive resort to informal enforcement in contexts that seem to require formal regulations in other industrial states. In Japan informal enforcement is not a process of governing, but has become the process of governing. It is used to implement nearly all bureaucratic policy, whether or not expressed in statute or regulation, at all levels of government and all administrative offices"³. With respect to the organization of Japanese bureaucracy, Keehn (1990), p.1021, declares that "... the processes of informality and discretion are a good deal more than flexible practices that complement and flesh out formal rules and procedures. They are organizational strategies crucial to the functions and performance of bureaucracy and government in Japan". Finally, according to Tanaka (1976), in Japan "... administrative agencies have exerted greater influence than in many other countries over various phases of economic activity and also over other aspects of social life through informal and extralegal channels"⁴.

Furthermore, in a substantial number of personal interviews, the interviewees

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emphasized the importance of informality in Japan\textsuperscript{5}. According to a Dutch banker, "... informal regulation is in Japan the rule rather than the exception"\textsuperscript{6}. A Western scholar, who has been living in Japan for a long time, commented that "... in Japan, informal control is very strong and has been consolidated in recent years"\textsuperscript{7}. A Japanese legal scholar subscribed to this viewpoint as follows: "Informalities are a very important aspect of Japanese society. Many fields of Japanese society are determined by informal mechanisms\textsuperscript{8}.

These are just a few random examples from a large number of scholars who emphasize from different disciplines and perspectives the importance of informal factors in the relationship between public and private sectors in Japan, more specifically in the various forms of government-business interaction in the economic system. However, as will become clear, these scholars disagree sharply in their judgement of the actual relevance of these informal factors for economic policies.

The basic question that first has to be asked is by which criteria informality is being determined. According to the literature, the informal part of the public-private sector relationship with respect to the Japanese economic system has to be distinguished in two major components: administrative guidance and informal networks. Of course, the government-business relationship "... can have many dimensions and take many forms" [Yamamura (1982), p.77]. This is also true for the informal part of this relationship. The limitation to administrative guidance and informal networks is dictated by the frequent and persistent attention for these two informal components in studies on the Japanese political economy and economic system. In the existing literature, administrative guidance and informal networks are the central elements in analyses of the relevance of informal factors in the Japanese public-private sector economic relationship, or in other words in Japanese economic policy.

\textsuperscript{5} One rare exception of this general trend was an American investment banker, who stated that "... an important aspect of informal control is the timing, but informal controls as instruments are not of substantial importance". Personal interview, June 1992, Tokyo.

\textsuperscript{6} Personal interview, August 1990, Tokyo.

\textsuperscript{7} Personal interview in the Netherlands, March 1991.

\textsuperscript{8} Personal interview, September 1992, Tokyo.
First, informal government intervention in Japan is often identified with non-legal intervention, that is intervention without explicit legal backing⁹. This informal, non-legal intervention has become famous under the name of administrative guidance [gyōseï shidō]. Administrative guidance, in its official version explained, means that "... government institutions want specific parties to act or not to act in a specific way, within the primary or secondary task of these government institutions, by realising guidance, strong advice, weak advice or other measures without legal coercive power"¹⁰. The central characteristic of administrative guidance is the non-legal enforceability: compliance by the recipient of the governmental guidance is from a strict legal perspective voluntary - that is, without formal legal coercion. Thus, the criterion whether or not a government action should be typified as administrative guidance is clearly a legal one. Furthermore, administrative guidance is an instrument of government intervention, that is to say is used to implement government policies. Section 3.3 will be devoted to an analysis of administrative guidance.

The other major component of the informal part of the public-private sector relationship is constituted by the existence of informal networks based on personal relations [jimyaku]. These personal relationships are links between the government bureaucracy and business executives which result from common backgrounds as regards former employer, university, place of birth, family, etc. According to Okimoto (1989), these "... informal, personal relationships between bureaucrats and business leaders ... function as channels of communication between the public and private sectors and as mechanisms for bridging the divide between "frame" organizations in Japan"¹¹. The criterion to distinguish these personal networks is the sharing of a common background, which establishes specific personal or private relationships. Essential is the non-transparent character of the use of these networks in economic policy. From the perspective

⁹ This identification of informal with non-legal is being supported by for example Murakami (1987), p.46 [informal "... that is, not legally enforceable"], Murakami and Rohlen (1992), p.91 [informal is "... no legal ground for compulsory affiliation"] and Kumon (1992), p.126 ["... less formal (not established by law)"]. See also Upham (1987), p.22.


of economic policy, their usefulness as mechanisms to reach consensus in the policymaking process is being emphasized, whilst some scholars also stress the importance of informal networks for implementing policy. That is, informal personal networks could be used as instruments of government control over the economic system: they are a kind of proxy variables for the use of administrative guidance. Informal networks will be discussed in section 3.4.

Concludingly, the attention for informality in economic policy, such as being interpreted in Japanese (political) economic studies, is commonly limited to two components: non-legal intervention and informal networks. The common denominator is generally the dimension of non-transparency: informal is identified with private, the absence of disclosure. This is sometimes negatively interpreted as the existence of a sneaky and secretive bureaucracy that uses informal, in the sense of non-transparent and undisclosed, instruments to its own discretion. However, scholars such as for example F.K. Upham and D. Okimoto emphasize the positive aspects of an informal, i.e. "behind the scene", consultative and consensual policymaking process which includes a small number of participants, an informal consultative and cooperative interdependent relationship that also remains important in the implementation stage of government policies12: in the words of Noble (1989), p.68, "... informal but intense links", in the meaning of "... informal, bureaucratically-sponsored negotiation" [Noble (1989), p.70] between government and business are the heart of Japanese economic and social policy. As will become clear, the non-transparency issue is relevant for the major part of administrative guidance. Of course, it is particularly relevant for, and even the major characteristic of informal networks. It is extremely hard to tell if and to what extent personal relationships, based on specific common backgrounds, are used in the making and implementation of economic policy. The aspect of non-transparency is an essential dimension of informality, and frustrates an objective judgement of the issue.

From an economic perspective, the use by the government economic bureaucracy of

12 Upham (1987), p.167-168, states regarding Japanese industrial policy that the contact between bureaucrats and business is "... furthered by an informal, consultative policymaking process that encourages the formation of personal relationships across institutional boundaries. ... The underlying precondition for this state of cooperative interdependence of government and business in Japan is the informal and bipolar nature of the process of industrial policy. Policy is set and then implemented with the constant participation of and consultation with the private sector".
non-transparent informal instruments can be interpreted as the existence of a government intervention mechanism behind the official market mechanism. In other words, if Japanese economic policy is characterized as informal in the meaning of non-transparent, an unknown and unspecified part of government intervention in the economic system is hidden from the view of economic markets. In this respect, informal economic intervention could be typified as non-market economic intervention.

Finally, a major problem with informality as a concept in Japanese political-economic studies is the ad-hoc use of different interpretations at different places in a specific study, quite often without explicit explanation. For example, according to Upham (1987), p.198f, the characteristics of Japanese bureaucratic informality include aspects such as "... the creation and operation of wide-ranging administrative systems with little or no statutory basis", and a legal environment that results in "... a judicially unaccountable bureaucracy that operates without clear statutory limits", which have a clear legal basis. But it also contains "... frequent informal consultations" between the members of deliberation councils [Shingikai], that is informal in the meaning of consultations beyond the formal procedural meetings, informal in the sense of "behind the scene" non-official negotiations.

The purpose of this chapter is to present an analysis of the significance and relevance of informal factors in Japanese economic policy, following the various interpretations of the Japanese economic system which were presented in chapter two.

First, in the next section, some reasons for the alleged importance of informal factors in Japan will be presented.

Second, the two major alleged informal components of Japanese economic policy will be discussed: administrative guidance in section 3.3 and informal networks in section 3.4.

A final section will be devoted to concluding remarks.
3.2 The Alleged Importance of Informality in Japan

"The informal system, the driving force of Japanese activities, is a native Japanese brew, steeped in a unique characteristic of Japanese culture"  
Nakane (1970)\(^{13}\)

The purpose of this subsection is to investigate why according to a significant number of scholars informal factors are important in the contemporary Japanese economic system. The analysis will be brief, mainly because a large number of explanations are embedded in sociological and anthropological frameworks, which are beyond the scope of this study. It also has to be emphasized that this analysis by no way claims that informal factors are only a "unique" Japanese phenomenon. What the analysis in this subsection does provide is a survey of studies which stress why informal factors in the Japanese political economy and economic system are important, and therefore provides the argument firstly for the inclusion of informal factors in an economic study and secondly for an investigation of the actual relevance, importance and effectiveness of a specific number of informal factors in Japanese monetary policy.

The reasons for the alleged importance of informal factors can be classified in two, partly interrelated groups: a group of legal explanations and another group consisting of social-cultural explanations.

The legal line of reasoning, related to the legal dimension of informality, has its main supporter in the work of J.O. Haley, who emphasizes strongly the importance of informal, i.e. not based on explicit laws, enforcement of government policies in Japan. According to Haley (1986), (1991) and (1992), the "...persuasive resort to informal enforcement in Japan is best explained by two factors: the predominance of promotional as opposed to regulatory policies and the weakness of formal law enforcement"\(^{14}\). In Japan, industry is assisted by promotional government intervention, and almost not hampered by restrictive economic regulation. Furthermore, as a result of "...Japan's peculiar historical experience" and "...the impact of Occupation reforms", the Japanese bureaucracy lacks explicit legal controls, which have resulted in "...the strength of


extralegal forms of social and economic ordering" [Haley (1992), p.58]. The reforms of the Supreme Commander of Allied Powers (SCAP) during the occupation of Japan after WWII limited the legal powers of the economic bureaucracy significantly. As a result, the promotional orientation of economic policy and the lack of formal legal power impel the bureaucracy to resort to cooperative policymaking and administrative guidance: "These two factors not only force reliance on administrative guidance as an informal means of implementing policy, but by the same token significantly curtail the autonomy of the bureaucracy in formulating policy. Both the aim of assisting industry and a lack of strong legal sanctions or other forms of formal legal coercion in effect compel officials in Japan to negotiate and compromise with respect to the policies they seek to implement." Haley (1991), p.166, concludes: "The avoidance of legal regulation and coercive state control must be viewed as among the most prominent characteristics of governance in postwar Japan."

Social-cultural explanations of the alleged importance of informal factors in Japanese society and economic system stress the importance of such aspects as consensus, perception of vulnerability, avoidance of conflict and confrontation in public, and other social-cultural factors. As has been analyzed in chapter two [subsection 2.2.4], the consensual policy school puts forward the notion that consensus is the basis of the functioning of the Japanese political-economic system and not binding rules and laws. This socio-cultural preference for consensus and reliance on informal bargaining has been reinforced by "...

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15 According to others, mainly Japanese scholars, the lack of explicit legal controls in Japan "... is considered to be a reflection of either traditional attitudes or "deep culture"" [See Haley (1992), p.57]. Some western scholars, in particular Upham and Young, explain the lack of legal means in terms of bureaucratic power: the bureaucracy could prevent the development of legal means (such as litigation), and consequently maintained its power by the use of informal policymaking and implementation. See Haley (1992), p.58, and Ramseyer (1985).


17 The importance of informal factors is also caused by the general and universal character of Japanese laws. Subsection 3.3.1 will pay attention to this aspect.

Japan's perception of vulnerability. The attention for consensus is also to be found in discussions on the importance of legal contracts in Japan. According to a number of studies, not formal contracts but societal norms, based on consensus, in combination with personal, informal negotiations and agreements, structure Japanese society.

Furthermore, social-cultural explanations of informality in Japanese society and economic system emphasize the importance of human relationships and resulting informal networks. For example Nakane (1970), p.144, notes that "... Japan has no native concept of 'organization' or 'network' abstracted or divorced from actual man; 'organization' is perceived as a kind of succession of direct and concrete relationships between man and man". According to Pye (1985), human relationships are central in Japan: "... patterns of relationship which are never formally institutionalized in a legal sense can become as rigid and firmly entrenched as the formal rules and institutions of the West" [Pye (1985), p.287]. Attention for informal networks can also be found in the pluralistic network model, departing from the concept of social exchange, which has been discussed in subsection 2.2.5 of the previous chapter. Another school which focuses strongly on informal networks is the consensual policy school, of which D. Okimoto is one of the leading adherents. According to Okimoto (1989), the factors behind the importance of informal, personal networks in Japan are a frame society based on consensus rather than legal codes, the Confucian stress placed on human relations, particularly the emphasis on loyalty and trust, social homogeneity, the logistical convenience of Tokyo as the hub of both political and economic activity and the role of the educational system as the

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21 See also Keah (1990), p.1033, and Van Wolferen (1991), p.188f [Dutch pocket edition].
central mechanism for elite selection and social mobility\textsuperscript{22}. His conclusion is clear: "This combination of factors appears to make Japan perfectly suited to the informal, non-legalistic policymaking that is a hallmark of its administrative apparatus"\textsuperscript{23}.

In the next sections, the two major alleged informal components of economic policy in Japan, i.e. administrative guidance (3.3) and informal networks (3.4), will be discussed.

\textsuperscript{22} Okimoto (1989), p.156.

\textsuperscript{23} Okimoto (1989), p.156.
3.3 Informal Aspects of Economic Policy I: Administrative Guidance

One of the most discussed components of government intervention in the Japanese economic system is the vague, sometimes ill-defined set of informal instruments commonly specified as administrative guidance [gyoosei shidoo]. Praised by some as an important explanation of the Japanese economic "miracle"\(^24\), and criticized by others as unlawful government intrusion in the private sector\(^25\), the word administrative guidance has been used frequently by government agencies and in the mass media, but was until recently not an official legal technical term\(^26\). According to some estimates, the use of administrative guidance is significant and widespread: Young (1984) refers to commentators who estimate that administrative guidance "... comprises over eighty percent of Japanese bureaucratic activity", and Schaede (1992) states that "Informal industry estimates are that this regulatory practice constitutes 60-90% of all regulation of a given industry"\(^27\). However, as will become clear, regarding its effectiveness, the opinions differ greatly.

3.3.1 Definition and Classification

To clarify the concept of administrative guidance, in figure 3.1 the definitions in some of the major studies in the field are shown. Comparison of these definitions and their underlying literature leads to the following conclusions. First, most studies accept the legal criterion of informality in the sense of being not legal: administrative guidance is interpreted as government actions without formal legal coercion, that is compliance with these actions by recipients is from a strict legal perspective voluntarily. From a legal point of view, the recipients are free to ignore the guidance. This also implies that these regulated parties presumably are "... not forced to perform without consent, nor are they punished if they do not"\(^28\). As will be discussed below,

\(^{24}\) See for example Johnson (1982), p.318.

\(^{25}\) For example, personal interview former senior executive Japan Federation of Business Organizations [Keidanren], January 1993, Tokyo; personal interview senior executive leading city bank, July 1993, Tokyo.

\(^{26}\) This changed with the introduction of the Administrative Procedures Bill [Gyoosei Tetsuzuki Hoo] in 1993.

\(^{27}\) Young (1984), p.954, and Schaede (1992), p.9. However, empirical or other support to back up these rough estimates is not presented.

Figure 3.1 Definitions of administrative guidance

Ackley and Ishi (1976), p.236: "Administrative guidance involves the use of influence, advice, and persuasion to cause firms or individuals to behave in particular ways that the government believes are desirable".

Ballon and Tomita (1988), p.27: "Administrative guidance might be understood along the lines of the pre-Meiji tradition in which the samurai, or warrior-bureaucrat, makes, interprets, and administers the "law" (as a rule of equity)".

Bingham (1989), p.82: "... is a varied and ill defined combination of informal techniques by which a ministry carries out its responsibilities and gets what it wants".

Davis (1972), p.1: "... "Administrative guidance", a simple though by no means perfect definition, would be a request by administrative body for voluntary cooperation".

Eads and Yamamura (1987), p.433: "Administrative guidance is non-legally binding guidance issued by ministries mostly in written form but on occasion orally".

Haitani (1976), p.48: "Administrative guidance is a unique Japanese practice, according to which government officials or agencies guide industries and firms in desired directions by informal means and without specific statutory authorities".

Haley (1991), p.160: "Administrative guidance is defined quite simply as advice or direction by government officials carried out voluntarily - that is, without formal legal coercion - by the recipient".

Henderson (1973), p.201: "..., "guidance" means action by which administrative agencies influence parties through voluntary, nonauthoritative - as opposed to legally coercive - means to cooperate willingly with the agency's guidance toward what is academically called "integration of the social order".

Hollerman (1988), p.176: "... a nonstatutory regulatory technique used by administrators to secure "voluntary" compliance with their wishes".

Johnson (1982), p.265: "It refers to the authority of the government, contained in the laws establishing the various ministries, to issue directives (shijii), requests (yooboo), suggestions (kankoku), and encouragements (kanshoo) to the enterprises or clients within a particular ministry's jurisdiction. ... although it is not based on any explicit law, it cannot violate the law".

Juristo (1991): Administrative Procedures Law, Outline of Bill (The first sectional meeting draft) (July 27, 1991), p.74: "Under this law, administrative guidance means that government institutions want specific parties to act or not to act in a specific way, within the primary or secondary task of these government institutions, by realising guidance, strong advice, weak/ordinary advice or other measures without legal coercive power".
Kitagawa (1989), p.135: "Administrative guidance may be defined as a set of acts leading a person or organization with his or its voluntary cooperation and consent so that the administrative agency's intent may be realized".

Matsushita and Schoenbaum (1989), p.31: "... a phrase used by journalists, businessmen, and government officials to describe a category of informal regulation of private industry that is widespread in Japan".

Minami (1990), p.99: "Gyosei shidoo is a guidance which is given to the people by an administrative organ. It is called instruction (shiji), recommendation (kankoku), warning (keikoku), advice (shiji), attention (chui), guidance (shidoo), etc" [italics added].

Murakami (1987), p.46-47: "A close informal relationship existed among all parties concerned, including the ministry of jurisdiction and all firms in the industry in question. This bundle of characteristics is aptly summarized in the concept of gyosei shidoo ("administrative guidance") [italics added - AvR],...".

Narita (1968), p.353: "Administrative guidance is understood as the action of administrative organs in respect to matters within a certain administrative field, in executing statutes by applying them, and in ordering strong measures against and otherwise compelling, specific individuals, juristic persons and associations; where there is voluntary compliance and a statutory basis of action, in guiding, suggesting, and advising; and where there is voluntary compliance but no statutory basis of action, in influencing the parties' voluntary cooperation and consensual performance by expressing, as an administrative organ, the expectation and wish that something should exist or be done in certain way".

Okimoto (1989), p.93: "... informal guidance issued by MITI and other government ministries to help specific industries deal with vexing short-term problems that threaten to harm the collective interest".

Trezise and Suzuki (1976), p.784: "... administrative guidance, under which an official or an agency, without having specific legal authority to do so, might direct or induce private persons to take or refrain from certain actions".

Upham (1987), p.168: "... various informal, legally voluntary modes of persuasion, generically known as administrative guidance, to convince individual firms or groups of firms to comply with Ministry policy".

Wakiyama (1987), p.211: "Administrative guidance is defined as an administrative agency's action, without any coercive legal effect, which encourage related parties to act in a specific way in order to realize some administrative aim".

Young (1984), p.923: "Administrative guidance occurs when administrators take action of no coercive legal effect that encourages regulated parties to act in a specific way in order to realize some administrative aim".
the question is if compliance is from a practical point of view really "voluntary".

Furthermore, the government agency does not need specific statutory authority for using its guidance. However, it must not act beyond its specific field of administrative concern.

Third, administrative guidance is seen to be given by government agencies to regulated parties with the aim of modifying their behaviour in a specific way.

Finally, the government agency uses only expressions of expectations or wishes, and not legal orders. In this sense, administrative guidance can be interpreted as a form of "moral suasion".

The use of administrative guidance is in some studies perceived as "unique" to Japan, an informal form of government intervention that would not work in Western countries like the United States. For example, Johnson (1993), p.56-57, quotes S. Hoshino, former vice-minister of the Economic Planning Agency, who declares that "Non-transparent methods such as the Japanese government's administrative guidance would have been regarded as 'unfair' outside of Japan ... and most likely could not function in the United States". Others, such as Narita (1968), take the view that in Western countries similar intervention modes exist.

According to its purpose, administrative guidance can be classified in at least three different categories. First, promotional administrative guidance is

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33 For example, according to Narita (1968), p.354-355, the economic authorities in the United States and Germany use administrative guidance-like intervention mechanisms.

given to assist recipients and to promote their interests: the government as a "good father" [josei shidoo]. Second, administrative guidance is used as an arbitrage mechanism to solve conflicts between parties [chosai shidoo]. Third, administrative guidance is used to regulate the conduct of specific parties in a specific way: regulatory administrative guidance [kissei shidoo]. This kind of guidance has still the character of advice, but is used as a substitute for legal compulsion. In general, when administrative guidance is being discussed, it is mostly interpreted as regulatory guidance.

Administrative guidance is practically conducted through directions [shiji], requests [yooboo], warnings [keikoku], suggestions [kankoku] and encouragement [kanshoo]35. These measures are partly implemented through circulars or notifications [tsuutatsu], other formalities and written statements [Narita (1968), p.365]. However, a significant part of the guidance is given orally, and some observers include even body-language of government bureaucrats36. This non-transparent form of administrative guidance is said to include the most important guidance, is the breeding ground for rumours and unspecified claims regarding its effectiveness, and gives administrative guidance its delicate and illustrious connotation37. A number of interviewees even did not regard the published circulars [tsuutatsu] as administrative guidance: the dimension of non-transparency was for them an essential criterion to classify government

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36 Personal interviews Western scholar, September 1992, Japanese legal scholars September and October 1992, and former high-ranking staffmember Bank of Japan, January 1993, Tokyo. When private sector representatives are summoned to a ministry, the specific non-verbal communication by bureaucrats, like attitude, etc., exemplifies their wishes and sends a clear message to the private sector.

37 Personal interviews Western and Japanese journalists, June, July and September 1992, Western and Japanese economic scholars September 1992, Japanese legal scholars September, October and November 1992, Tokyo. Also supported in literature, for example in Yamamura (1990), p.59. The issue of regulatory transparency is one of the constant recurring topics in the bilateral American-Japanese negotiations (such as the Structural Impediments Initiative talks).
actions as administrative guidance. This interpretation of administrative guidance can also be found in most discussions in the media and empirical studies.

The question whether or not tsuutatsu are part of administrative guidance is not clearly answered. According to some Japanese legal scholars and government bureaucrats, the public and general character of tsuutatsu disqualifies them as administrative guidance: "real" guidance is never written down and is very directly oriented at a specific party. Others include the tsuutatsu in administrative guidance, because from a legal perspective the affected parties are not coerced to follow these circulars. This interpretation coincides with the definition of administrative guidance followed in this study, and therefore tsuutatsu will be classified as administrative guidance. To stress its transparent character, the tsuutatsu will be referred to as public administrative guidance. The non-transparent guidance is typified as private administrative guidance.

The use of administrative guidance by the Japanese government bureaucracy is intertwined with the basic structure of the Japanese legal system. Japanese laws are usually short and very general: the actual interpretation is left to the discretion of government bureaucrats. In the words of one of the interviewees: "In Japan, the law is empty, the bureaucracy is king." The lack of clear, explicit formal laws give rise to discretionary bureaucratic guidance: it has been left to the bureaucracy to interpret and implement the law. According to some scholars, this discretionary authority of the government bureaucracy is


39 Interviews Japanese legal scholars September 1992 and June 1993, senior staffmember Ministry of Finance, September 1992. According to one legal scholar, tsuutatsu are part of administrative law [gyosei rippoo], and not of administrative guidance [gyosei shidoo].

40 Personal interview Japanese legal scholar, October 1992, and senior staffmembers Ministry of Finance, February 1993, Tokyo. The view that tsuutatsu are part of administrative guidance is among others supported by Narita (1968), Davis (1972), Eads and Yamamura (1987), Schaede (1992) and (1993).


the most positive aspect of administrative guidance: firstly, the bureaucracy can act swiftly and flexible when confronted with new, unforeseen situations by avoiding red tape and complex and time-consuming legal procedures, and secondly, it can provide tailor-made solutions.\(^{43}\)

### 3.3.2 Compliance

Since administrative guidance can not be enforced by legal means, the question arises why recipients should comply with it. The answer is four-fold.

First, a large number of studies stress the interactive and interdependent nature of administrative guidance: the guidance is not one-sidedly imposed by the bureaucracy, but usually the regulated parties are extensively involved in its formulation.\(^{44}\) Young (1984), p.939, puts it as follows: "To assure voluntary compliance and substantial cooperation, agencies engage in practices designed to increase the informal, generally unreviewable input of parties into the regulatory process. Indeed, agencies that engage in administrative guidance undertake extensive consultations with regulated parties ... about the need for regulation and the form it will take". The informal consultations [nemawashi] make compliance with the guidance more likely: they are even said to be necessary to achieve compliance.\(^{45}\)

Second, clients of the government bureaucracy sometimes request regulatory guidance. To some extent, this results from a paternalistic relationship between government and society: Japanese citizens and private organizations expect

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\(^{45}\) Nemawashi can be translated as "To dig around the root of a tree to prepare it for transplanting". According to Hollerman (1988), p.178, "... the term refers to groundwork to enlist the support or informal consent of those concerned with a pending matter before asking for a formal decision". See also Ballon (1990), p.26-28. Inadequate consultation may result in non-compliance [Young (1984), p.947-949, Wakiyama (1987), p.218].
government action in times of trouble. In other cases it is the result of private sector attempts to limit bureaucratic uncertainty or to protect specific interests.

A third reason for compliance with administrative guidance is the alleged traditional submissiveness to authority and respect for the Japanese government bureaucracy. Government bureaucrats are recruited among the best graduates from the most elite universities, and feel highly responsible to promote and serve the interest of their country. They even claim to "... speak for the national interest" [Johnson (1982), p.266].

Finally, regulated parties accept administrative guidance out of fear of government reprisal in case of non-compliance: voluntary compliance should be "voluntary" compliance. Ministries have a wide range of powers and cover a large area of responsibilities, and consequently have numerous options for an effective carrot-and-stick strategy. In this sense, their so-called permissive authorization, like the authority to grant licenses, is important: if a recipient does not follow the ministerial guidance, the ministry can deny its approval to certain other activities, which are often unrelated to the issue at hand. This idea is captured by the proverb "Enemies in Edo (Tokyo) are taken care of in Nagasaki [Edo no ada o Nagasaki se utsu]" [Mouer and Sugimoto (1986), p.243-244]. In this respect, it has to be mentioned that the relationship between administrative agencies and regulated parties is long-term and multifaceted, so it is in the self-interest of recipients of administrative guidance to keep this relationship as good as possible, i.e. to comply.

However, it also has to be mentioned that the guidance should be impartial if

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46 Shindo (1992), p.79f.


compliance is to be reached: in cases of administrative bias in favour of particular parties or interests, non-compliance occurs. The importance of kyokaninka differs from ministry to ministry: in a regulated industry like the financial services sector, the authoritative power of the Ministry of Finance is relatively big. On the other hand, the kyokaninka of MITI is said to be less substantial. Consequently, MITI implements its guidance much more by consensus, whereas the Ministry of Finance uses administrative guidance more by "order". Against the background of fear of reprisal in case of non-compliance, it is questionable to which extent administrative guidance is really voluntary: "..., the crux of the matter is whether in any real sense one can say in each instance that compliance was in fact voluntary" [Henderson (1973), p.201]. The aspect of kyokaninka shows clearly that it is extremely difficult to discuss administrative guidance in general terms. Each administrative agency has its own specific form of administrative guidance, dependent on its statutory possibilities and legal power base, and the structure of and developments in the specific private industry under its jurisdiction.

3.3.3 Criticism

Besides the problem that "... it is sometimes easy for administrative agencies to exceed the limits of voluntary action and to engage in actual coercion", administrative guidance has a number of other negative aspects. First, the lack of transparency of a substantial part of administrative guidance obstructs its supervision and deprives the general public of basic knowledge about the government's policy intentions. It gives rise to suspicions of Japanese society being "... a system in which vital decisions are made more or less in secret by a small coterie of bureaucrats and business leaders (many of them retired bureaucrats) who reflect a narrow range of political, economic, and educational backgrounds and interests" [Ackley and Ishi (1976), p.239]. The lack of transparency could result in the protection and promotion of specific interests, at the expense of the interests of the general public. Second, the lack of transparency and the absence of specific legal authority and clearly defined procedures opens the door to bureaucratic mistakes or even to

53 Personal interview Japanese legal scholar, June 1993, Tokyo.
abuse of bureaucratic power. The use of administrative guidance is not circumscribed by any specific limits: the discretionary power of the bureaucracy could result in needless intervention and the implementation of policies without sufficient perspective. Furthermore, the specific content of administrative guidance is often decided at relatively low bureaucratic levels, which obstructs the formulation and implementation of coherent and clear policies.\(^{55}\)

3.3.4 Relevance of Administrative Guidance in Theoretical Schools

To conclude this subsection, an assessment of the relevance and effectiveness of administrative guidance will be made. This assessment differs sharply in accordance with the various interpretations of the Japanese economic system, such as presented in chapter two.

First, the interventionist school argues forcibly in favour of administrative guidance. According to Johnson (1982), p.318, administrative guidance is "... perhaps the most important market-conforming method of intervention", one of the means of government control over the economic system.\(^{56}\) He presents evidence that "... MITI has on occasion retaliated with force against an enterprise that rejected its advice" [Johnson (1982), p.266], i.e. administrative guidance is accompanied by bureaucratic retaliation if necessary. Johnson thinks that as a result of liberalization, administrative guidance will decline, but that "... it will never disappear completely from the Japanese scene" [Johnson (1982), p.274]. The alleged important role of administrative guidance is supported by, among others, Schaede (1992), p.5, where it is stated that "... the operative framework for the influence [of the government bureaucracy-AvR] is administrative guidance". In conclusion, the interventionist school sees administrative guidance as one of the most important instruments of economic policy, and emphasizes that compliance can be coerced by carrot and stick strategies.

Second, not surprisingly, the opposite view is held by the adherents of the market school: according to their interpretation, the absence of formal legal means to force compliance limits severely the effectiveness of administrative guidance. The market school supporters doubt why private parties would comply with this guidance unless it is in their own interest.\(^{57}\) The clearest exponent of this view is J.O. Haley, whose perception that the use of administrative guidance in the postwar Japanese economic development was so weak and unsuccess-

\(^{55}\) Personal interview former high-ranking staffmember Bank of Japan, August 1992.


ful that the market mechanism could survive, was presented in chapter two [subsection 2.3.4]. Other studies which subscribe to the doubt of the market school in the effectiveness of administrative guidance are Suzumura and Okuno-Fujiwara (1987), Komiya, Okuno and Suzumura (1988), Noble (1989), and Weinstein (1992).58

The third model of the Japanese economic system, i.e. the consensual policy school, emphasizes the consensual character of administrative guidance: to achieve compliance with administrative guidance, prior consultations and consequent consensus are a prerequisite59. Okimoto (1989), p.95, concludes that administrative guidance "... has receded in functional importance over the years, though it continues to be used as a low-key and informal policy instrument".

The pluralistic network school, the last school presented in chapter two, accepts administrative guidance as an effective instrument that established a system of compartmentalized competition and consequently contributed significantly to the postwar Japanese economic development. The government-business relationship can be analyzed from a social-exchange framework, which explains the compliance of business with administrative guidance in the post WWII economic development. However, the original reasons for the use of administrative guidance, i.e. the danger of market instability and the threat posed by foreign competition, have receded significantly. As a result, "Administrative guidance is no longer legitimated ... by the environment" [Murakami and Rohlen (1992), p.95].

It has to be mentioned that final conclusions regarding the effectiveness of administrative guidance have to distinguish between specific administrative agencies, specific regulated parties and specific periods of time60.

58 Suzumura and Okuno-Fujiwara (1987), p.60: "... the so-called voluntary compliance by private firms to the regulatory objectives could be obtained only when such objectives were largely consistent with private objectives. Even MITI could not force an unwilling horse to drink water". Noble (1989), p.92, states: "Indirect administrative guidance, ..., was ineffective". See also Komiya, Okuno and Suzumura (1988), p.551. Some studies argue that administrative guidance was effective in some specific industries during the fifties and sixties, but that it has become ineffective due to liberalization and deregulation [Kosai (1987), p.591, Uekusa (1987), p.476, and Horne (1988a), p.152, 167].


3.4 Informal Aspects of Economic Policy II: Informal Networks

In the analyses of the Japanese political economy and economic system in chapter two, it has been shown that in a significant number of studies the existence of informal networks based on personal relationships is one of the most notable and essential characteristics of the government-business relationship in Japan. Examples of these studies are Okimoto (1989), Kumon (1992), Murakami and Rohlen (1992) and Research Project Team for Japanese Systems (1992), which all incorporate explicitly elements of the network approach. Other studies emphasizing the importance of personal networks are Boyd (1987), Taira and Wada (1987), van Wolferen (1989), Wilks and Wright (1991), Calder (1988) and (1993), and the large number of studies focusing on specific personal networks, which will be discussed below. For example, Taira and Wada (1987), p. 264, draw the conclusion that "... the personal networks and contacts of public officials and private business leaders render the formal structural distinction of government and business almost meaningless in Japan". Calder (1993), p. 271, concludes: "Government-business networks in Japan deserve extended study in their own right, particularly at the micropolitical and microeconomic level. ... These networks play a crucial role in determining both policy and private-sector outcomes and information flows".

Regarding the interpretation and relevance of personal networks, various approaches can be distinguished. One approach departs from the existence of so-called "factions" in Japanese society: "... influential coalitions predicated on common attributes" [Wiersema and Bird (1993), p.1002]. According to Kusayanagi (1969), "... all human relations in Japanese society are based on four kinds of "factions" (or batsu): keibatsu (family and matrimonial cliques), kyoodobatsu (clansmen, or persons from the same locality), gakubatsu (school and university classmates), and zaibatsu (factions based on money)". These personal relationships, based on specific common backgrounds, constitute human networks, of which especially gakubatsu and zaibatsu are said to be of great importance in

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61 Only informal networks, based on personal relationships and relevant for the public-private sector interrelationship, will be discussed. For example, no attention will be paid to so-called administrative networks, which are based on relationships between managers in private companies, and which are said to be particularly large-scale and prevalent in Japan. See Lifson (1992).

the government bureaucracy [Johnson (1982), p.55].

A somewhat different approach, presented for example in Imai (1992) and Research Project Team for Japanese Systems (1992), follows the view that personal networks in Japan are strongly institution-oriented, rather than individual-oriented. Imai (1992), p.228, notes that "... Japanese networks are built on the experiences people share by working in the same place or attending the same school. Relationships in such a network are linkages mediated through "place" in this sense". According to the Research Project Team for Japanese Systems (1992), p.42, "..., in postwar Japanese society, relationships based on kinship and having the same home town have weakened, and intimate relationships of mutual trust based on frequent contact, that is, "relations of *najimi* (familiarity)," have come to fulfill an important role. Grouping has been furthered by relations of familiarity centering on occupation and workplace".

These different approaches are united in the interpretation in Okimoto (1989). Okimoto distinguishes between ascriptive and functional networks based on personal relations. The ascriptive networks can be divided in the above mentioned *keibatsu*, *kyoodobatsu*, and *gakubatsu*, and contacts through mutual friends and school club ties. Functional networks include friendships developed in the course of government industry contacts, participation in informal studygroups, and networks constituted by the post-retirement employment of Japanese government bureaucrats in private business, the so-called "descending from heaven* [amakudari]*. Okimoto (1989), p.237, emphasizes the importance of personal networks in the formulation and implementation of industrial policy in Japan: "It would be hard to formulate and implement Japanese industrial policy if the labyrinth of personal relationships in the intermediate zone [between public and private sector-AvR] did not exist".

In the literature, and supported by personal interviews, the attention for the relevance of informal networks in the public-private sector (inter)relationship is especially focused on *amakudari*, and to a lesser extent on *gakubatsu*. Because of this emphasis, and the fact that objective data regarding these two specific networks are available, the analysis of informal networks will be limited to *amakudari* and *gakubatsu*.

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3.4.1 Amakudari

A study of the phenomenon amakudari is hampered by a number of difficulties. First, the "human dimension" of amakudari complicates objective and independent research. In a significant number of interviews, especially those with active and retired staffmembers of the MoF and BoJ, the interviewees were quite reluctant to discuss the issue. In neither MoF nor BoJ was it possible to get the data regarding their amakudari kanryo (retired bureaucrats in private sector positions) through official channels. Amakudari is a delicate topic: the acceptance of highly paid jobs after retirement by former government bureaucrats raises suspicious feelings among the general public and media of possible conflicts of interests. To put it more bluntly: according to the "man in the street", amakudari could be interpreted as the existence of a small and privileged group of former civil servants who line their pockets by using relations built up during public service. Against the background of these feelings, it


65 In a personal interview, October 1992, a Japanese political scholar mentioned a similar experience: with the rare exception, he did not manage through the official channels to get the information on amakudari positions at industrial federations. He stated that "... our Japanese scholars do not have information regarding amakudari".

66 The delicate nature of amakudari forces even one author not to use the word. In his excellent study of the Japanese financial system, J. Horne states: "The Japanese often use the phrase amakudari [italics added-AvR], which literally means 'descend from heaven'. I have avoided use of the word in line with this book's aim of producing an analysis understandable to the non-Japanese specialist but also because the word is often used with pejorative connotations" [Horne (1985), p.263]. A good example of the suspicious feelings surrounding amakudari can be found in Johnson (1974), p.955. Regarding the report on amakudari published by the National Personnel Authority, Johnson mentions that in the media it "... provoked bitter comments: it raised suspicions that bureaucrats on active duty but looking ahead to retirement, as well as those already retired, might be more interested in protecting the interests of businesses than of the public".

67 Personal experience from various interviews with Japanese citizens who are not directly involved, April 1992-July 1993.
is not surprising that directly involved persons and institutions are reluctant to discuss the issue.

Second, the specific characteristics of definitions of amakudari used by various authors differ. In figure 3.2, a number of these definitions are presented. Comparison of the characteristics shows a number of differences (and sometimes even inconsistencies). The most remarkable one is the distinction in the nature of the corporations which offer the post-retirement positions: some authors limit their definition to private companies, whereas others include public corporations as well. To add to the confusion, Johnson and Okimoto use both definitions at different places. Furthermore, Hollerman (1988) and Horne (1985a) mention explicitly the involvement of career bureaucrats only; other studies are more ambiguous about the difference between career and non-career bureaucrats among the amakudari kanryo. Finally, some publications, for example Van Wolferen (1989), Schaede (1992) and Prestowitz (1988), refer to descending into "leading" or "large" companies. Other studies, in particular Calder (1989), do not exclude medium and smaller companies explicitly. Against the background of the financial context of this thesis, it is interesting to note that according to Van Wolferen (1989), Schaede (1992) and Prestowitz (1988), Japanese bureaucrats accept positions "... as executive of a large ... bank", "... in the board of a leading bank" and "... in a large bank" respectively. These differences in definitions of amakudari obstruct comparative studies and the interpretation of data.

3.4.1.1 Definition and Classification of Post-Retirement Employment

In this study, amakudari involves the acceptance of high-level positions by retired career bureaucrats from the Ministry of Finance (MoF) and the Bank of Japan (BoJ) in private banks. Especially the post-retirement positions of career bureaucrats are important: these officials are the elite and assume the most lucrative and leading positions among the retirees. Although staff members of the BoJ are not real civil servants, they are included in this study for two reasons: firstly, the Japanese government, i.e.

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Figure 3.2 Definitions of amakudari

Aoki (1988), p.265: "... bureaucrats who quit the bureaucracy after attaining positions higher than that of section director in the administrative hierarchy "descend from the heaven" (amakudari) of the elite bureaucracy ... become available as human resources for national and local politics, business management in private and public corporations, and other consulting activities".

Blumenthal (1985), p.310: "... amakudari means "descent from heaven" and is used to describe the reemployment of government bureaucrats after the termination of their service with the government".

Calder (1989), p.382: amakudari "... involves the widespread movement of national government bureaucrats from the "heaven" of elite government service to private firms, public corporations, local government, and the Diet after retirement from the national bureaucracy at around the age of forty-five to fifty-five".

Haitani (1976), p.44: "The practice of higher administrators securing postcareer employment in business and public corporations is commonly known as amakudari".

Hollerman (1988), p.175: "The government career civil service is alluded to as heaven, from which high officials retire at about age 55 to take senior positions in private business".

Horne (1985a), p.163: "The retirement system in the government bureaucracy whereby many career bureaucrats retired between the ages of 50 and 55 to LDP Diet membership or to senior executive positions in companies for which their ministry had responsibility ... When bureaucrats took retirement jobs in industry or public companies, this was known as amakudari or 'descent from heaven'".

Johnson (1974), p.953: "The movement from ministry or agency to a private business is known as "descent from heaven" (amakudari)" [Johnson emphasizes the movement to private, profit-making enterprises].

Johnson (1978), p.5: "The practice of employing retired government officials as chief executives or members of boards of directors of public and private corporations".

Okimoto (1988), p.319: "The reemployment of higher civil servants in high-level posts within the private sector (amakudari)" [Okimoto sees amakudari as "... perhaps the best unobtrusive indicator of relative bureaucratic power"].

Okimoto (1989), p.161: "The interpenetration of public and private is nowhere more graphically illustrated than in the well-known practice called amakudari, whereby officials leaving the bureaucracy "descend from heaven" into high-level posts in public corporations, industrial associations, and private industry [amakudari as an informal policy network].

Prestowitz (1988), p.113: "... amakudari (literally, "descent from heaven"). In this case, heaven is the bureaucracy, and the descent is into a posh position in a large bank or corporation, or possibly as head of another public body or a think tank". 
Schaede (1992), p.10: "... amakudari, the "descent from heaven", where former bureaucrats, who on principle retire early, assume a position in the board of a leading bank or manufacturing firm or become the head of an industry association".

Upham (1987), p.167: "When Japanese bureaucrats retire, most take positions in the private sector, many in the very firms they have been dealing with during their bureaucratic career - a process known as amakudari, or "descending from heaven"."

the MoF, has a majority stake in the BoJ\(^72\), which makes the BoJ part of the Japanese government bureaucracy, and secondly, the BoJ is responsible for the implementation of monetary policy and is consequently of great importance for the Japanese banking industry. The limitation to private corporations is in accordance with the clear classification of after-retirement employment of Japanese bureaucrats in Johnson (1974) and the requirements of the National Public Service Law (Kokka Koomin Hoo). According to Johnson (1974) and (1978), the re-employment of Japanese bureaucrats after their retirement, virtually without exception in their early or mid-fifties, can be classified as follows\(^73\).

First, retired bureaucrats find new employment in private, profit-making companies. This movement is known as amakudari in the true sense, and is subject to minor legal restrictions. These restrictions are mentioned in article 103 of the National Public Service Law, which introduced for retiring bureaucrats a waiting period of two years between the moment of retirement from the bureaucracy and the moment of accepting a position in a profit-making company, in case of a close connection between this company and the previous position of the retired bureaucrat\(^74\). During these two years, the former government officials have to wait in temporary positions in unrelated businesses, universities or other nonprofit organizations. The National Personnel Authority has the authority to grant exceptions from the two-year waiting period, and publishes since 1965 an annual report on the number of retiring bureaucrats and the number of exemptions, called Eiri Kigyou e no Shuushoku no Shoonin ni kansuru Nenji Hokokusho


\(^74\) According to Johnson (1974), p.954, article 103 states: "Personnel are hereby prohibited for a period of two years after leaving the public service from accepting or serving in a position with a profit making enterprise which involves a close connection with any agency of the state ... with which such persons were formerly employed within five years prior to separation from the service".
According to Johnson (1974) and (1978), Schaeida (1994) and various interviewees, the retiring bureaucrats who are subject to the screening procedure by the National Personnel Authority constitute amakudari. Second, Japanese bureaucrats move after retirement into public corporations or so-called special legal entities, i.e. enterprises established by law and financed in part from public funds. This reemployment is called "sideslip" (yokosuberi), because the retiring bureaucrat keeps a position in the public sector, and is not subject to legal restrictions.

Third, retired bureaucrats find also new employment in the political world, called "position exploitation" (chii riyou). The exploitation refers to the fact that political positions, such as member of the Diet, are "... usually open only to bureaucrats who served in choice national or regional posts that are particularly suitable for building general political support" [Johnson (1974), p.954]. The Japanese Election Law puts forward some minor barriers to this after-retirement employment.

Fourth, retired government officials accept high-level positions in non-profit oriented trade associations that represent specific industries. This form of post-retirement employment is not subject to legal restrictions.

The fifth form of employment involves retired bureaucrats moving into so-called auxiliary organs (gaikaku dantai), i.e. non-profit associations, foundations and institutes which are attached to a ministry and are often research-oriented. These organs function frequently as "waiting room" to spend the two-year waiting period before accepting a private sector position, and are sometimes used as the "last resort" for hard-to-place retirees.

Finally, retiring bureaucrats accept positions in prefectural governments.

This whole spectre of retired government bureaucrats in top-positions in private and public corporations, politics, local governments, academics and a motley collection of foundations and associations establishes a many-branched network for each of the major Japanese government organizations, commonly defined as their "Old Boy" (OB) network. The OB networks of the economic government

75 Johnson (1974), p.954-955. Johnson notes that the enforcement of these legal restrictions is very lax.


bureaucracies, more specific MITI, the Ministry of Finance and the Bank of Japan, are extensively covered by very detailed Japanese language-sources. However, these elaborate data-presentations have not reached the relevant English-language literature. With rare exceptions, claims regarding the importance and relevance of amakudari, i.e. the private sector part of the OB network, for specific industries, and statements about specific numbers of amakudari kanryo are not backed by presentations and analyses of the relevant data. As a result, these conclusions are, as will become clear in chapter seven, often not precise.

Against the focus of this study on the financial system and the public-private sector relationship, the analysis will be limited to amakudari in the private banking industry.

3.4.1.2 Structure of the Bureaucracy and Amakudari
Before discussing several interpretations of the significance of amakudari from a broader political-economic perspective, it has to be emphasized that as a consequence of its fundamental structure, the Japanese government bureaucracy needs the practice of post-retirement employment.

First, the organization of the bureaucracy is based on strict seniority principles. New career civil servants enter a ministry as members of a specific class, a group of about 25 persons at large ministries such as MITI and MoF. When one member of a class reaches the highest bureaucratic position possible, i.e. becomes administrative vice-minister [jimu-jikan], the other members of his class in their early fifties must resign, leaving the vice-minister with absolute seniority. Furthermore, the principle of seniority is also important from the perspective of university background: graduates from a specific year are senior in rank to graduates of later years. The promotion schemes follow

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79 Regarding the BoJ, excellent coverage is provided by the yearly publication Seisaku Jihoo Shuppansha (1991), p.265-301. This publication mentions even the hobbies of the OBs, and crucial pieces of information such as their golf handicap. Similar publications also exist for the MITI and the MoF.


these seniority lines closely. This means that in case of the appointment of a new administrative vice-minister, senior graduates from the same university will have to retire.

Second, the relatively low purchasing power of the postwar bureaucratic pay scales and pension system as compared with the private sector forces retiring bureaucrats to obtain post-retirement employment. For example, Rasmeyuer and McCall Rosenbluth (1993), p.116-117, note that 1990 figures show a monthly mean national wage of Yen 357,000, compared with a roughly estimated mean career bureaucratic wage of Yen 318,000. Furthermore, these figures understated the actual differences: career government bureaucrats are recruited among the brightest graduates of the best universities, and consequently their potential private sector income is much higher than the mean national wage.

As a result, the government bureaucracy must find every year a number of landing-spots for its retiring members. That is to say, amakudari is an institutional bureaucratic phenomenon: the post-retirement positions of individual officials are arranged by the government bureaucracy, dependent on their final position in the bureaucratic hierarchy. In this respect, amakudari differs from the private sector re-employment of Western civil servants, which is left to individual initiatives.

3.4.1.3 Theoretical Interpretations of Amakudari

Regarding the theoretical interpretations of the political-economic importance of amakudari, five views can be distinguished: two stressing the importance of amakudari as a bureaucratic reward system, and three others focusing on its significance for the government-business relationship.

The first view, explicitly discussed in Inoki (1993), and supported among others by Okimoto (1987) and Aoki (1988), regards amakudari as an important incentive mechanism and reward system within the Japanese government bureaucracy. Against the background of the potentially high financial rewards of after-retirement private sector employment, amakudari positions "... are provided as the final

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83 According to Johnson (1974), p.960, the finding of new jobs for the retiring bureaucrats is the responsibility of the Chief of the Minister's Secretariat (Daijin Kanboo); Aoki (1988), p.265-266, refers to the Personnel Section of the Minister's Secretariat. A different explanation is given in Schaede (1994), p.12, where it is said that the post-retirement positions are arranged by the National Personnel Authority.

84 A Western country with a similar practice like amakudari is France, where large numbers of bureaucrats accept frequently and consistently positions in private sector industries. This movement is called "pantoufle" and according to Inoki (1993), p.5, is estimated to be about ten times more frequent than amakudari in Japan.
prize in the competition among bureaucrats in the ranking hierarchy. These financial rewards can be considered as "... a form of deferred compensation whose values are determined on the basis of two factors: the officials' actual performance in ministries, and the rank of prestige of various ministries" [Inoki (1993), p.8]. As a result, from a strictly financial point of view, the government bureaucracy remains attractive for the best and brightest among the university graduates, and keeps its internal human resource allocation competitive.

The interpretation of amakudari as a reward system is also emphasized by Ramseyer and McCall Rosenbluth (1993), but then from the perspective of political control over the government bureaucracy. These scholars argue, following basic principal-agent theory, that the LDP [the postwar leading political party] dominates and guides the bureaucracy. According to Ramseyer and McCall Rosenbluth, the leaders of the LDP control the bureaucratic promotion scheme and the access to amakudari landing-spots. Consequently, given that "... bureaucrats potentially earn a large fraction of their lifetime wages in postbureaucratic jobs", government bureaucrats find it hard to ignore LDP preferences. In other words, the LDP leaders can hold these bureaucrats hostage: amakudari positions are given as rewards for bureaucratic "good behaviour".

Besides these views of amakudari as a bureaucratic reward system, three interpretations focus on its importance for the government-business relationship. The first interpretation sees amakudari as an instrument for indirect government control or dominance over private industry, as a channel to exercise administrative guidance. This approach, for convenience's sake defined as the government control interpretation, is part of the interventionist school, and as such it has received considerable popular support in the Japanese and Western

88 This approach is explained correspondingly by Calder (1993), p.69, as follows: amakudari "... has often been seen as a mechanism for enhancing government dominance over the private sector". In Okimoto (1987), p.165, the interpretation of amakudari as an instrument of government control is described as an "elitist or conspiratorial" interpretation: amakudari as a governmental "Trojan horse". Mabuchi (1993), p.12, portrays this view as follows: "Career mobility from government to business is usually interpreted as the consequence of government efforts to penetrate business decisions".
media. Main Western proponents are C. Johnson, C.V. Prestowitz, W.R. Nester, K. van Wolferen and U. Schaede. The government control interpretation of amakudari enlarges the set of potential instruments of economic policy with a network of strategically positioned retired bureaucrats: amakudari as an additional instrument to implement government policies. For example, Johnson (1974), p.964-965, notes that from the point of view of the government, the "placement of amakudari officials has been motivated not only by a desire to secure post-retirement employment for them but also as a matter of positive policy to enhance the effectiveness of administrative guidance". Amakudari "is one aspect of their implementation of so-called administrative guidance". The focus of Johnson on the relationship between amakudari and government control is further illustrated by the title "Control and amakudari" of the chapter that deals with bureaucratic post-retirement employment in Johnson (1978). In this study, p.114, Johnson argues that "Bureaucratic leaders occasionally have acknowledged that they use amakudari to serve policy purposes. ... in 1971, MITI placed one of its former vice-ministers, Kumagai Yoshifumi, on the board of Sumitomo Metals after a bitter dispute with that company in 1965, when it had refused to follow MITI's "administrative guidance" ". Schaede (1992), p.33, concludes that amakudari is one of the primary tools to implement administrative guidance: "... given the scope and relevance of administrative guidance in business regulation on the one hand, and the high number of amakudari board members on the other, it is safe to assume that bureaucrats constitute the most

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90 Johnson (1974) and (1978) and Schaede (1992) and (1994) will be discussed below. Nester (1990), p.139, notes that "The bureaucracy's policy-making and implementation power is further enhanced by the retirement (amakudari) [italics added-AvR]) of bureaucrats into high paying positions in private and public corporations and the LDP". Prestowitz (1988), p.113, states that amakudari is "... a source of power for the ministry, which gains eyes and ears and even a mouth in the organizations to which its "old boys" graduate". Ballon and Tomita (1988), p.27-28, emphasize that amakudari helps the process of administrative guidance substantially.

91 Although not a clear supporter of the government control interpretation, the view of amakudari being an instrument of government policy is supported by Aoki (1988). On p.269, he notes explicitly that "The resources that a ministry can mobilize to implement its policy include ... the network of its amakudari bureaucrats through which ministerial policy may be effectively propagated to the private sector".

92 On p.102, Johnson typifies amakudari as "By far the most notorious aspect of public corporate practice in Japan".

decisive factor in shaping day-to-day decisions of corporate Japan". The use of the amakudari network as a mechanism of government control over private business is also emphasized by various Japanese studies, for example Taira and Wada (1987) and Tsujinaka (1990). The former considers the "... administrative guidance of individual companies to make them conform to industrial policy" one of the "... official duties" of retired civil servants in private industry, and states that "It is commonly acknowledged that placement strategies and decisions are in part motivated by policy considerations" [Taira and Wada (1987), p.285-287]. Tsujinaka (1990) notes that "Denied the path to a strong state based on hierarchical centralization and control under a statist ideology, the state bureaucracy turned toward the osmotic network system whereby more sophisticated and indirect means of control could be developed and systematized". In his opinion, amakudari is one of these indirect means of control (along with administrative guidance, advisory councils and the like).

It has to be mentioned, as various studies of the government control school emphasize, that the kind of potential government control exercised through amakudari has to be subtle and cautious; it is to some extent limited by the need of the bureaucracy to maintain good relations with its private sector constituency, in the sense of exchanging information and "... maintaining coordination and cooperative interaction", and to ensure and safeguard future amakudari positions. Nevertheless, the bottomline of the government control interpretation of amakudari is that it provides the government bureaucracy with an additional instrument to implement government policies. In other words, this approach emphasizes the viewpoint of the government, i.e. the supply-side of amakudari, and the implementation of its policies. The government control interpretation implies also the existence of a relatively powerful government bureaucracy, which implicitly and/or explicitly can force private business to accept its retiring members.

A second school regarding the importance of amakudari in the government-business interrelationship is the "equalizing school", introduced by K. Calder and supported in Aoki (1988). This school interprets amakudari as a mechanism to

93 As quoted from Inoki (1993), p.4.


95 See especially Calder (1989).
equalize differences in access to bureaucratic information resulting from differences in corporate power and status between companies. For example, "... smaller firms in Japan have stronger incentives for wanting ex-bureaucrats and are willing to pay relatively more" because "... economically strategic information is much more frequently unavailable from public sources in Japan than in Europe and the U.S.96". This information sought for concerns likely regulatory bureaucratic actions as well as other more general economic and political matters97. Differences between companies as regards corporate power and status, such as size of assets, location of headquarters, membership of a business group (Keiretsu) and university background of members of the Board of Directors, are reflected in having less developed connections with the government bureaucracy. Calder (1989), p.399, finds that "Bureaucrats move with greatest frequency to relatively small, non-Tokyo-based, non-Keiretsu affiliated firms with relatively small proportions of elite Tokyo University graduates in top management". According to Calder (1989), the largest firms in Japan value secrecy more, have their own channels for gathering nonpublic information and consequently do not need and even do not want retired bureaucrats: "..., Keidanren, the major banks, and many of the key manufacturing firms in the largest industrial groups all decline to take amakudari kankō98". In the words of a general manager of a leading Japanese bank: "If you don't need them, you don't want them99". Furthermore, ex-bureaucrats in private service fulfill an equalizing role in the sense of promoting constituent interests: amakudari "... increases the range of


97 The idea of amakudari as a mechanism to get more information about likely regulatory bureaucratic actions is supported in Hollerman (1988) and Schaede (1994). In the view of Hollerman (1988), the private sector regards amakudari as an instrument to clarify government instructions. For example, in the case of the financial industry, the written guidelines of MoF (tsuutatsu) and the oral component of its administrative guidance are often regarded vague and unclear. Consequently, according to Hollerman, private banks are using their amakudari kankō to find out what the intentions of MoF’s policies really are. Also Schaede (1994), p.32, argues that the retired and re-employed bureaucrats are used "... to ensure access to information in an environment of non-transparent regulation through administrative guidance". The difference with Calder's equalization hypothesis lies in the fact that Hollerman and Schaede emphasize the private sector need for amakudari kankō because of the non-transparent and unclear character of the regulatory framework, whereas Calder focuses only on small and less-connected companies, which need amakudari to compensate for their information disadvantage with the government bureaucracy.


99 Personal interview with a former executive manager of the Keidanren, January 1993. Supported by various other interviews.
actors who can obstruct what bureaucrats, especially the relatively young section level officials who actually make most policy, would like to do" [Calder (1989), p.397]. Taking into account the importance of seniority relations in the government bureaucracy and the fact that the present bureaucrats are the juniors of the present amakudari kenryo, i.e. the former bureaucrats, amakudari establishes a "veto effect"100.

The equalizing school emphasizes the demand-side of amakudari, and sees a relatively balanced relation between private and public sectors in the sense that private companies follow their own interests when considering whether or not to accept former bureaucrats101. On the whole, "amakudari thus operates to broaden the access of the less-connected portion of the corporate world to government information, and frequently to co-opt and to undermine bureaucratic efforts at strategic dirigisme. It often constrains the bureaucrats, and thus complicates rather than reinforces their struggle for strategy" [Calder (1993), p.69]. In this sense, one can classify the equalizing view of amakudari as belonging to the market school interpretation of the Japanese economic system: amakudari improves the working of the market mechanism by equalizing information disadvantages between private companies and obstructing government intervention by establishing a "veto effect".

Finally, a third school can be distinguished. Its supporters, who belong to the consensual policy school, stress the importance of amakudari as a general mechanism for informal consultations and consensus building between public and private sectors102.

100 The use of amakudari as a mechanism to promote constituent interests is supported in Aoki (1989), p.266-267, and Schaede (1994), p.32.

101 In this respect, it has to be mentioned that inside recruitment for the leading positions is commonly preferred to outside appointments. Regarding the importance and custom of internal appointment of executives in Japanese companies, Odagiri (1992), p.43, notes that in almost all companies, "It is the norm to elect a director and then a president from inside the firm. Any deviation from this norm will greatly disappoint employees and damage their morale, as well as adversely affecting the quality of job applicants to the company. A typical example of such deviation has been the recruitment of retired senior government officials called amakudari [italics added-AvR], translated literally as 'descend from heaven'. Unless such recruitment is expected to bring a significant benefit, or unless the incumbent manager is entirely dissatisfied with the quality of his subordinates, there will be no recruitment from outside."

102 It has to be mentioned that also Johnson (1978), p.113, and Schaede (1994), p.33 stress the importance of amakudari in this respect; Schaede even states that amakudari/Old Boys networks constitute a system of "consultative capitalism". However, Johnson and Schaede link amakudari
Examples of this interpretation are Okimoto (1989) and Upham (1987). Okimoto defines amakudari as a so-called informal policy network, i.e. networks "... based on personal relationships which bring government officials and leaders from the private sector together to formulate public policy" [Okimoto (1989), p.152]. The personal relations existing between retired and present civil servants, embodied in the system of amakudari, facilitate the process of consensus building between public and private sectors: consensus that is a necessary condition for government policies to be effective in the societal or network state. In this approach, amakudari is instrumental especially in the process of policymaking: the continuous informal consultations and negotiations generate consensus regarding government policies, which are then relatively easy to implement. Upham (1987) stresses also the importance of amakudari as a mechanism for reaching consensus between public and private sectors. In his view, this contact between public and private sectors and elites "... is furthered by an informal, consultative policymaking process that encourages the formation of personal relationships across institutional boundaries. What cements the relationship is a congruence of interests among public and private elites. When Japanese bureaucrats retire, most take positions in the private sector, many in the very firms they have been dealing with during their bureaucratic career - a process known as amakudari, or "descending from heaven" " [Upham (1987), p.167].

In the consensual policy interpretation, amakudari is not used to implement administrative guidance or to equalize relative corporate power imbalances, but to formulate government policies in a continuous public-private sector interactive process. Okimoto (1987), p.164-165, emphasizes that the importance of amakudari from the perspective of government control over private business should not be overstated. The ex-bureaucrat will quite likely in his new business environment be regarded suspiciously as an outsider, favoured above the regular staff for a leading executive position, contrary to the tendency of Japanese companies to recruit executives internally. Or even worse, the retired bureaucrat could be suspected of being an instrument of government control, an possible executor of administrative guidance. Consequently, he has to operate carefully, and has to show his dedication and loyalty to the company to obtain the confidence of his new colleagues. The governmental organizations which send their retirees into amakudari positions face constraints as well: if they would try to exercise substantial and excessive control through their former staff-

explicitly to the implementation of administrative guidance, a link which is ignored by Okimoto and Upham. Consequently, Johnson and Schaede are classified as belonging to the government control school.
members, they would likely endanger future amakudari positions in these respective companies. These behavioural constraints seem according to Okimoto (1989) to limit the extent or possibility to which the former bureaucrat is used as an executive body of strong administrative guidance by his former employer. As Okimoto puts it, regarding the policies of MITI: "... elitist or conspiratorial interpretations of amakudari [italics added-AvR] - as MITI's Trojan horse - should be taken with more than a grain of salt. One should not exaggerate the scope of the influence gained by MITI through the system of amakudari [italics added-AvR]. More than expanding MITI's own power, the system works to consolidate the structure of government-business ties and the interpenetration of the public and private sectors."103

After this discussion of amakudari, attention will be paid to the personal network based on common university backgrounds, i.e. gakubatsu.

3.4.2 *Gakubatsu*

According to Nakane (1970), p.117, the existence of university cliques or *gakubatsu* is in Japan "... so well developed that they may indeed sometimes have a function comparable to that of a caste group in India, in terms of a monopoly of certain privileges through mobilizing, in a helpful fashion, friendships and relationships that are able to cut across departmental and institutional divisions". The significance of these university cliques is based on a strong sense of group consciousness, resulting from sharing the experiences and status of the same university. This strong consciousness of one's academic background establishes a mutual support system within as well as between Japanese organizations. The importance of *gakubatsu* is a direct consequence of the structure of the university system. The Japanese education system is highly competitive, the ultimate goal being a position at one of the most prestigious universities. The prestige of the university attended is so important because it is decisive for one's future career: as will be explained below, the most prestigious government organizations and private companies recruit from an extremely small number of universities. In other words, if you pass the entrance examination of one of these universities, you have guaranteed a successful future. The importance of university prestige is put aptly by Wiersema and Bird (1993), p.1007: It "... is a strong indicator of social class in Japanese society ... and among managers", and "... is likely to influence not only the organization joined but also the career trajectory within the organization". The consciousness of prestige develops strong bonds between graduates from the same universities, and has a significant influence on relationships not only between individuals inside and outside organizations, but also between organizations: the "... hierarchical ranking of Japanese universities in terms of prestige influences interfirm and intrafirm relations, shaping patterns of association, affiliation, and group formation".

The most famous *gakubatsu* are based on the University of Tokyo, which is considered the top university of Japan, and four other prestigious universities, of which two public (Kyoto and Hitotsubashi) and two private (Keio and Waseda), together called the "Big Five". Generally, common university backgrounds are

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104 Rohlen (1988), p.28, and Rohlen (1992), p.334. For more information on the Japanese university system the reader is referred to these studies.

said to be important from two perspectives\textsuperscript{106}.

First, from the perspective of the individual company and its internal organization, it should be noted that a significant number of large Japanese organizations limit their recruitment of new college graduates to specific universities\textsuperscript{107}. If one really wants to make it in these organizations, one has to graduate from one of those universities. The reasons for this specific orientation of recruitment seem to be firstly to use the prestige consciousness to build a coherent and homogeneous organization, and secondly the fact that the best students are located in the small number of most prestigious universities at the top of the university system. The graduates of these specific universities are of course much sought after by any organization in Japan. The most famous example of the orientation on specific universities when recruiting new university graduates is given by the recruitment practice of the Japanese government bureaucracy. A large number of the career government bureaucrats in Japan has graduated from the University of Tokyo (\textit{Toodai}), with the graduates from its Faculty of Law in particular moving into the most prestigious positions in the top-ranking ministries. A 1965-study of the National Personnel Authority found that 73 percent of investigated government bureaucrats at department chief level of above graduated from the Faculty of Law of the University of Tokyo (Johnson (1982), p.60). Looking at the results of the examinations which serve as the basis for all significant bureaucratic recruitment, Pempel and Muramatsu (1993), p.21, note that "... although there has been some reduction in the dominance of the civil service by University of Tokyo graduates, roughly 35-40 per cent of the successful applicants continue to be Tokyo graduates\textsuperscript{108}.


\textsuperscript{108} When looking only at the Class I examinations, which select the likely future candidates for the top positions, University of Tokyo graduates comprised in 1991 just over 50 percent of successful applicants, with Waseda and Kyotod Universities placed second and third (11.8 and 7 percent respectively) [Pempel and Muramatsu (1993), p.21-22]. They also conclude that "usually only 15 or so of Japan's 460-odd universities see 10
Other (semi) public organizations heavily dominated by Toodai graduates are for example the Japan Development Bank, the Japan Export-Import Bank and Bank of Japan with 80.0%, 87.5% and even 92.9% of their directors being graduates from the University of Tokyo109. The limitation of recruitment to specific universities when hiring new high-level staff members is also present among private sector companies. Wiersema and Bird (1993), p.1007, discuss the example of Mitsukoshi, a large retail company; about 60 percent of its college graduates are from two private universities, i.e. Keio and Waseda. Another example is S&B Foods, 88.2% of whose directors are from Waseda University110.

Second, common university backgrounds are important in the sense that they establish informal networks for exchanging information, consultation and coordination of policies between various organizations and segments of society. This aspect of gakubatsu receives the most attention in Japanese economic studies, in particular in the interventionist, consensual policy and "Japan, Inc." schools111.

First, C. Johnson, one of the main representatives of the interventionist school, concludes that gakubatsu "... forms the most pervasive "old boy" network throughout the society as a whole" [Johnson (1982), p.57]. Johnson focuses explicitly on the university clique based on the University of Tokyo [Toodai], i.e. the Toodaiibatsu. The main reason for him to do so lies in the fact that Toodai graduates are positioned in the highest levels of public and private sectors, establishing a network of managerial and bureaucratic elites predicated on graduation from the University of Tokyo. The existence of the Toodai network facilitates the communication between government and private business. And in Johnson's view, perhaps more important, "... the Toodai [italics added-AvR] connection means that both government offices and board rooms are staffed by men who share a common outlook", based on the specific education at the University of Toorkyo, which results in a "... homogenization of views" [Johnson (1982), p.60-62]. This congruence of public and private views makes it easier to

or more of their graduates succeed in the exams".


111 The pluralistic network school stresses the importance of inclusive informal networks in the Japanese political economy, without explicitly naming these networks.
formulate and implement government economic policies, directed by the bureaucratic staff of the developmental state. In this sense, Toodaibatsu is instrumental in the process of economic policy, and contributes to the effectiveness of administrative guidance.

Second, the consensual policy school sees gakubatsu as one of the informal policy networks, which are used to bring public and private sectors together to formulate economic policies. This opinion has been put forward especially in Okimoto (1989), where also the importance of the Toodaibatsu is emphasized, and Boyd (1987) and Upham (1987).

Finally, the "Japan, Inc." interpretation of the Japanese political economy, i.e. the Japanese version of the power elite model, sees the Toodaibatsu as a powerful elite which runs the Japanese economy. A clear example of this interpretation is the study by Taira and Wada, which concludes that the economic system is manipulated and led by the "Toodai-government-business (TGB) complex": the Japanese economy is not guided by the market mechanism, but by the "Invisible Hand" of the TGB-complex, "... a remarkable system of national economic management" [Taira and Wada (1987), p.267].

To illustrate the importance of graduating from specific universities, figure 3.3 shows the university backgrounds ("Big Five") of the top-executives of the around 2,000 companies listed on the major three stock exchanges, plus major non-listed insurance companies and business organizations.

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112 U. Schaede, a clear adherent of the interventionist school, has a more nuanced view: in Schaede (1994), p.15, it is stated that "While one should not generalize and exaggerate the relevance of the university relation, in individual cases it can be very important".

113 Personal interview, Western scholar, August 1990; Japanese banker (chairman), December 1993, Tokyo.


115 An interesting example of the power elite model is presented in Hollerman (1988), p.112, where it is stated that there are two elites, a premier elite, i.e. graduates from Toodai Law Faculty, and a secondary elite formed by graduates of Keio University. The Keibatsu dominated the textile industry, and has become more influential in the Keidanren, the powerful business federation that is arguing for administrative reform and less government interference with the economy. The Keibatsu is consequently indirectly attacking the Toodaibatsu in a struggle for a more liberalised economic system.
Figure 3.3 University background of Japanese company executives, 1983-1993 (directors and above) (*"Big Five" universities)

<table>
<thead>
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</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>%</td>
<td>No.</td>
<td>%</td>
</tr>
<tr>
<td>Tokyo</td>
<td>4849</td>
<td>15.7</td>
<td>4805</td>
<td>13.7</td>
</tr>
<tr>
<td>Kyoto</td>
<td>2187</td>
<td>7.1</td>
<td>2226</td>
<td>6.4</td>
</tr>
<tr>
<td>Hitotsubashi</td>
<td>977</td>
<td>3.2</td>
<td>1148</td>
<td>3.3</td>
</tr>
<tr>
<td>Keio</td>
<td>1767</td>
<td>5.7</td>
<td>2320</td>
<td>6.6</td>
</tr>
<tr>
<td>Waseda</td>
<td>1684</td>
<td>5.5</td>
<td>2462</td>
<td>7.0</td>
</tr>
<tr>
<td>Total% Big 5</td>
<td>37.1</td>
<td>37.1</td>
<td>34.2</td>
<td>32.7</td>
</tr>
</tbody>
</table>

Source: Ursacki (1994), p. 646

The numbers show clearly the predominance of "Big Five" graduates in the Board of Directors of the leading Japanese companies: the graduates of 5 universities, out of a total of about 500 universities and colleges in Japan, have occupied in recent years around one third of the top executive positions. It is interesting to see that the share of the top three public universities (Tokyo, Kyoto and Hitotsubashi) over the last 10 years has decreased from 26% in 1983 to 18% in 1993, while the share of the private universities (Keio and Waseda) has increased from 11.2% to 14.7%. However, to grasp the real significance of the figures presented, one has to take into account the total number of graduates from the respective "Big Five" universities. For example, the number of graduates from the individual public universities is much smaller than from Keio and Waseda. This factor strengthens the importance of graduating from one of the top three public universities.

3.4.3 Summary and Overview

In this chapter, various aspects of the government-business relationship have been discussed from an informal perspective. As has been discussed in section 3.1, informality applied to studies of the Japanese economic system involves

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116 % is percentage of total number of company executives, as published in Yakuin Shiki Ho [Toyo Keizai Shinposha].

117 In 1992 the number of graduates from these universities were (in brackets): University of Tokyo (1662), Kyoto University (1755), Hitotsubashi University (948), Keio University (4183) and Waseda University (6116). Source is the Sunday Mainichi (1992), p. 147. Furthermore, Hitotsubashi University is by far the smallest of the three public universities. Therefore, a final conclusion can only be drawn after calculating weighted numbers which take into account the respective total number of graduates from these universities.
commonly and predominantly the study of two issues: administrative guidance and informal networks, in particular amakudari and gakubatsu. As such, informality has two dimensions.

First, it is interpreted from a legal perspective: informal government intervention in the economic system, in the sense of implementation of economic policies which can not be enforced by legal means.

Second, informality means the existence of non-transparent networks, which connect public and private spheres. These networks are based on personal relationships resulting from common backgrounds, and are used in either the formulation or implementation of economic policies.

In figure 3.4, an overview of the various interpretations of informal aspects of economic policy in Japan is presented.

Figure 3.4 Classification of Informal Aspects of Japanese Economic Policy

<table>
<thead>
<tr>
<th></th>
<th>Legal</th>
<th>Non-legal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transparent</td>
<td>Tsuutatsu (public administrative guidance)</td>
<td>Informal networks: Gakubatsu Amakudari Private administrative guidance</td>
</tr>
</tbody>
</table>

Furthermore, attention has been paid to the specific interpretation of informality in the various schools of the Japanese economic system which were discussed in the previous chapter. The views of the interventionist, market, consensual policy and pluralistic network schools of informal aspects in Japanese economic policy are summarised in figure 3.5. The "Japan, Inc." interpretation has been included as well, given its attention for gakubatsu.

Figure 3.5 shows clearly the differences in orientation between the schools discussed. The interventionist school emphasizes the importance of informal mechanisms for the implementation of economic policy. In its perception, administrative guidance is one of the most important policy instruments, and informal networks, in particular amakudari, are used to influence business decisions. In other words, the interventionists see informality with respect to government-business relations as a direct control mechanism of the government economic bureaucracy.
Against this orientation are the views of the consensual policy and pluralistic network schools which stress especially the significance of informality in the formulation of economic policy. Administrative guidance is no longer important anymore, but informal networks like amakudari and gakubatsu are important channels for coordination and negotiation between public and private sectors. Furthermore, the market school, which does not believe that the Japanese government contributed significantly to the "Japanese miracle" anyway, regards the importance of informal factors as control mechanism or as any other advantage for the government in its formulation and implementation of economic policy as negligible. Finally, the "Japan, Inc." school, which according to numerous authors is no longer relevant for the contemporary Japanese economic system, sees the economy managed by the political, bureaucratic and business elites, in other words mainly by the Todaibatsu.
Figure 3.5 Informality applied to Economic Policy as interpreted in Schools of Japanese Economic System

<table>
<thead>
<tr>
<th>School of Economic System</th>
<th>Administrative Guidance</th>
<th>Informal networks</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Interventionist School</td>
<td>In the bureaucracy-led state, administrative guidance is one of the most important instruments to implement economic policy and to control the economic system. It can unilaterally be enforced by the government bureaucracy.</td>
<td>In the bureaucracy-led state, the system of <em>amakudari</em> provides the bureaucracy with an additional channel to implement administrative guidance; <em>gakubatsu</em> is instrumental in the formulation and implementation of economic policy.</td>
</tr>
<tr>
<td>2) Market School</td>
<td>In the pluralistic society, the government bureaucracy is not powerful enough to control the economic system. The market mechanism is the dominating force, administrative guidance is not effective.</td>
<td><em>Amakudari</em> is not an instrument of economic policy, but is used to promote the interests of the private sector and to equalize relative business positions; no real attention for <em>gakubatsu</em>.</td>
</tr>
<tr>
<td>3) Consensual Policy/Network</td>
<td>In the network state, the reaching of consensus between public and private sectors is a prerequisite for administrative guidance to be effective. Generally, administrative guidance is not important anymore.</td>
<td>In the network state, where the bureaucracy is relatively weak and can operate only when consensus is reached, <em>amakudari</em> and <em>gakubatsu</em> are informal pol. networks, instrumental in reaching consensus and formulating ec.pol.</td>
</tr>
<tr>
<td>State School</td>
<td><strong>Administrative guidance was an important and effective instrument, but lost much of its appeal and effectiveness</strong></td>
<td><strong>Amakudari</strong> and <em>gakubatsu</em> are not explicitly referred to; however, this school stresses the importance of informal networks as sources of coordination and info flows.</td>
</tr>
<tr>
<td>4) Pluralistic Network Model</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5) &quot;Japan, Inc.&quot;</td>
<td>Administrative guidance is not relevant</td>
<td><em>Gakubatsu</em> important: Toodaibatsu &quot;runs&quot; the Japanese economy</td>
</tr>
</tbody>
</table>
3.5 Conclusions

The analysis of informality with respect to the Japanese economic system can be reduced to two main issues.

First, in some part of the literature the proposition has been put forward that the economic process in Japan is not only organized by the market mechanism, but that informal networks behind the market have been established, which function as additional coordination mechanisms. From this perspective, studies emphasize the existence of informal business groups and personal networks, examples being the central position of the Keiretsu in Gerlach (1992) and Imai (1992), and the theory of social exchange in Murakami and Rohlen (1992). This emphasis has resulted in the view that the Japanese economic system is a specific variant of Western market capitalism, giving rise to interpretations such as alliance capitalism or consultative capitalism.

Second, and particularly relevant for this study, a number of schools stress the importance of informal factors in the public-private sector economic relationship: in other words, in the intervention of the government in the economic system, i.e. economic policy. When following the paradigm of the bureaucracy-led state of the interventionist school, this means the use of informal instruments to implement policies. On the other hand, when following the concept of the network state of the consensual policy school, it means the use of informal networks to reach consensus and formulate policies.

This conclusion once again shows how important it is to define clearly the conceptual framework and basic assumptions which form the starting point of economic analysis: different assumptions regarding the specific relationship between Japanese government bureaucracy and private sector generate different conclusions regarding the specific function of informal mechanisms in Japanese economic policy.

Furthermore, this chapter also showed again the fundamental differences between the various schools of the Japanese economic system. More specific, regarding the relevance of informal factors in Japanese economic policy, the interventionist and network schools criticize the market school and consequently to a certain extent also economics as a science for ignoring these factors. In fact, the issue of informality seems to lie at the heart of the controversy between these schools. It has to be mentioned that there are important differences in the opinions of those who support the view that informality is an essential

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118 Alliance capitalism from Gerlach (1992); Consultative capitalism from Schaede (1994).
characteristic of the Japanese economic system. For example, Van Wolferen, one of the so-called revisionists, sees everything in not only the economy but the whole "Japanese System" explained by informal relations: this "... System is what it is by virtue of informal relations that have no basis in the constitution, in any other laws or in any formal rules of the ministries, the LDP, the corporations or any other of the administrator institutions."\(^{119}\). Other interpretations, for example the consensual policy and pluralistic network schools, have a much more nuanced view.

Given the alleged importance of informal factors for Japanese economic policy in the interventionist and network schools, and given their criticism of mainstream economic explanations and interpretations of the Japanese economic system, this study takes up the gauntlet and includes explicitly informal factors in the analysis of Japanese monetary policy. Therefore, in the following chapters, the relevance of the specific interpretations of informality in these schools for monetary policy will be investigated. This investigation will establish the framework for consequent analysis of informality in Japanese monetary policy.

It has to be said that most studies on the relevance of informal factors in the public-private sector economic relationship do not take into account monetary policy specifically. However, their results are also relevant for the analysis of monetary policy for two reasons. First, studies which emphasize informal factors take predominantly a general view: informality is said to be a fundamental characteristic of Japanese economic policy and government control\(^{120}\). Consequently, informal factors are also relevant for monetary policy, being one of the major parts of government intervention in the economic system.

Second, the informal mechanisms discussed in this chapter are present in Japanese monetary policy and financial system. Reportedly, the Ministry of Finance and the Bank of Japan use administrative guidance in the implementation of their policies. Furthermore, the informal networks constituted by amakudari and gakubatsu have been developed in the financial system as well. Therefore, in the following chapters the link between political economy, economic system and monetary policy, following the concept of informality, will be investigated.


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