

# Japan's Construction Lobby Activities – Systemic Stability and Sustainable Regional Development

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*The term "construction state" has been used to refer to a system of vested interests in construction activities that embraced Japan at different geographical levels of scale. A system of collusion between politicians, bureaucrats, and businessmen evolved and led to massive government spending on public works projects. Its pace and scope have resulted in fiscal crisis and environmental devastation and have aroused the opposition of local residents. This paper will analyze the construction-related networks of relationships of the central actors in the so-called "iron triangle" of politics, bureaucracy and construction business, and its influence on regional development. We shall theorize that sustainability will remain an unattainable ideal in regional development as long as the stability of the "construction state" is preserved by certain formal and informal elements in Japan's politicoeconomic system. These elements, however, have until now remained comparatively stable, despite of some reform initiatives.*

## 1 Introduction

During the long period of one-party rule in postwar Japan, a system of collusion between politicians, businessmen, and bureaucrats evolved. They were linked by an extensive network of formal and informal ties and were bound in a so-called "iron triangle" of benefit and influence. Public works projects became a major focus of structural collusion. The system of vested interests in construction activities encouraged bribery and bid rigging and spread a net that embraced Japan at different geographical levels of scale. This system led to massive government spending on public works projects often to the benefit of business rather than the general public and to an inefficient construction industry highly dependent on public funding (Miyai 2000; Igarashi 2001). The term "construction state" (*doken kokka*) has been used to refer to the notorious Japanese habit of pump priming, as a result of which the central and local governments have incurred cumulative debts totaling more than 670 trillion yen meanwhile.

Among the political and economic problems prevailing in the aftermath of the collapse of the bubble economy a decade ago, the "iron triangle" became a major focus of political and administrative reforms. In actual fact, the construction state mechanism has remained relatively stable despite these reforms. One indication of this is that the Japanese government has repeatedly attempted to counteract the continuing economic weakness by Keynesian spending on public works. The potential profits

for the politically powerful construction industry, which is composed of over 560,000 companies directly employing about 6.7 million people, have thus risen even further. To many critics of these policies the associated public works appear to be little more than a large-scale advancement and employment program for the construction business that not only devours enormous sums of tax money, but also causes severe environmental damage in the regions.

The above outlined situation forms the background for a new research project in the field of political and economic geography on the Japanese construction state. This project will be summarized in this paper. Our analysis of Japan's construction lobby activities has four specific objectives. We will begin by describing the concept of the project. Secondly, we will analyze the construction-related networks of relationships and interactions in the notorious "iron triangle". Thirdly, we will discuss the concept of sustainability with reference to Japanese regional development, and finally, we will close with a theoretical interpretation of the construction state. We shall theorize that, although it is certainly correct that in many ways the "iron triangle" has become quite fragile in an era of institutional change, it still continues to function in particularly problematic areas like the construction business.

## **2 Outline of the research project**

The project focuses on the peculiarities of the Japanese construction business and its influence on spatial development processes in modern Japan. As a conceptual framework for our theories on the complex issue of construction-related lobbying activities, we will adopt the public choice approach to the theory of rent-seeking (Buchanan 1980). In brief, the project addresses two main interrelated questions:

1. What are the causes and consequences of the long-standing stability of the construction state? The concept in question here is the "iron triangle", on which a highly controversial discussion has focused in the political science literature for many years (e.g. Ramseyer and Rosenbluth 1993; Johnson 1995; McCormack 2001). We will look at the Japanese construction industry and the field of public works policy in hopes of gaining insights into (a) the mechanisms of spatially relevant decision-making processes, (b) the networks of relationships between central actors, (c) their power structures, and (d) how stable these networks and structures are under the conditions arising from the recent reform movements.
2. How can we characterize the recent trends in Japanese regional development? Because public works projects have a widely varying impact on regional development, we have to analyze not only their spatial effects, but also their economic, ecological, and social consequences. There is a disproportionate concentration of people, property, and money in the national capital, Tōkyō. Consequently, from the standpoint of local authorities, government investments in infrastructure projects appear desirable as a motor of regional economic growth. In the past, however, Japanese regional planning policies have not scored any real success at lessening the regional disparities. Instead they have caused severe environmental damage (Igarashi 2001). In this context, the concept of

sustainability derived from the field of human ecology will play a special role in our research on Japanese regional development.

To summarize, we apply a twofold definition of stability based on an approach used in political-economic geography; the first, based on systems analysis, is used for stability in reference to the "iron triangle" concept, and the second, based on human ecology, refers to stability in the sense of sustainability. In our research into these two connotations of stability, our analysis will adhere to the established pattern in political geography of distinguishing three levels of government, the central, the prefectural, and the local level, because too little attention has been paid in the literature to their strategic interdependence. Since the quantitative approach lost its dominant position as an empirical methodology in the field of human geography, many geographers have increasingly turned to interviewing as a more qualitative research instrument (Herod 1999). According to Mullings (1999), qualitative interviews provide a better understanding of the policies and practices pursued by key elites and help to uncover the complexity of the motivations and incentives behind those actions. Thus, methodologically, our study will comprise semi-structured interviews with key politicians, bureaucrats, and construction company representatives.

### **3 The politicoeconomic context of the Japanese construction industry**

As Pempel (1998) argued, the postwar Japanese economy was based on a two-tiered system consisting of a highly inefficient sector of industries protected from foreign competition and a sector of internationally competitive companies yielding high growth rates. Although the construction industry is among the most inefficient and noncompetitive industries in Japan, it still plays a pivotal role in the political economy of the country. Still today, the rationality of policy decisions appertaining to the construction business is affected by certain interest coalitions and robust power politics involving three groups of actors: leading politicians from the Liberal Democratic Party (LDP), which has been in power almost uninterruptedly since 1955, ministerial bureaucrats from the construction-related ministries, especially the Ministry of Land, Infrastructure, and Transport (MLIT) and the Ministry of Agriculture, Forestry, and Fisheries (MAFF), and representatives of the construction and real estate business. Responsible for the functioning of this "iron triangle" is, according to Woodall (1996, pp.8-14), Japan's "clientelist state", which is characterized by particularism, political corruption, and economic inefficiency.

1. Particularism is the consistent granting of priority to a small set of special interests at the public expense. Legislators channel distributive policy expenditures into their electoral districts, thereby enhancing their prospects for reelection. Because distributive policy benefits serve the material needs of special interest groups, these groups contribute massive amounts of money to political campaigns in return.
2. Political corruption is a second by-product of political clientelism. The informal alliance between central actors is upheld by means of financial contributions.

The construction industry, which is highly dependent on the state as a client in public building projects, is well-known for dubious dealings involving bureaucrats and politicians. Thus, illegal political contributions, bribery, and influence peddling have led time and again to corruption scandals.

3. A third element of political clientelism is economic inefficiency. Public construction spending is overpriced as a result of kickbacks to politicians and bureaucrats and keeps an artificially bloated construction industry alive. The government's investments in public works could also be interpreted as a contribution to continuous employment in this sector. Consequently the business is anything but competitive internationally.

Traditionally, the interplay between the central actors is based primarily on certain formal and informal elements in Japan's politicoeconomic system, on mutual interests – and on money politics (Nakano 1997; Broadbent 1998; Vogel 1999). The politicians tolerate overpriced contracts for public works projects for the firms and expect generous campaign funds and votes in return. Politics and money are so closely intertwined in Japan because of the high costs of being in politics. Local party organizations are for the most part lacking, and politicians themselves are directly responsible for procuring money with the help of personal support groups (*kōenkai*). They are, therefore, busily involved in lobbying for local needs and for money. Politicians who have an extensive network of relationships and additionally are experts in the field of construction-related policies (*zoku giin*), therefore regularly act as intercessors between the companies and the bureaucracy. As such they effectively serve as an internal lobby representing the special interests of the construction business within the party and the factions (*habatsu*), the parliament and the commissions. At the same time the politicians are dependent on the expertise of the ministries, whose experts have considerable influence on the formulation of policies within administrative advisory councils (*shingikai*). The ministries' control and decision-making function and their influence on the local authorities are based not least on the strong financial position of the central government. When it comes time for construction contracts or permits to be granted, businessmen, for their part, hope that the bureaucrats will be accommodating. In return for concessions the bureaucrats expect lucrative positions, either directly in the big construction companies or in related semipublic bodies after their retirement from public service (*amakudari*), and acquiescence in informal administrative guidance (*gyōsei shidō*).

These comments show that the political process in Japan is in reality much more complex than a superficial glance at the model of the "iron triangle" would indicate. In accordance with the concept of "patterned pluralism", derived from political science, decision-making processes are pluralistic, but adhere to a relatively rigid pattern based on fixed relationships and unwritten rules.

For many decades the "iron triangle" was considered the symbol of the country's economic prosperity. The structures we have described here, however, culminated in a series of major corruption scandals in Japan from 1988-1993. The resulting severe public criticism gave support to those wishing to initiate a structural reformation of Japan's political system. In fact, reforms have been carried out under a coalition of non-LDP political opposition parties since 1993. Some scholars therefore argued

that Japan is already in the midst of a fundamental shift in the character of its political economy (Pempel 1998). However, what does the enthusiastic government spending on public works throughout the 1990s reveal about the stability of the construction state? And why could this system continue to work well even though reforms had taken place? Based on an analysis of the literature, we would like to suggest the hypothesis that the specific characteristics of the Japanese politico-economic system still help to sustain the stability of the construction state. We particularly focus on the hypothesis that the interest intermediation in public works policy through the "iron triangle" exists not only at the national level, but on the regional and local level as well. The same assumption applies to *dangô*, the preferred instrument for the awarding of public building contracts. *Dangô* refers to a system of cartel-like agreements reached by consultation among bidders in construction commissions.

Empirical research to sustain or refute these hypotheses will have to focus on three main areas of investigation: firstly, the political and economic environment of the Japanese construction industry; secondly, the motivation and interaction of key actors, including actors within the three coalition groups forming the "iron triangle" and powerful actors outside the "iron triangle" (such as special interest groups and nongovernmental organizations), and finally, both the formal and informal institutions involved in decisions on public works policy. With the collapse of the bubble economy and the growing importance of globalization in the 1990s, Japanese key institutions came under pressure. Hence further empirical work will also deal with approaches to structural reform, in order to gain insights into the stability of the networks of vested interests.

#### 4 Sustainability and Japanese regional development

Encouraged by the report of the World Commission on Environment and Development in 1987, sustainability has made its way onto international and national policy making agendas. This concept from the field of human ecology has become the central principle governing the interplay of nature, society, and economy to resolve the impasse between economic development and the environment. Sustainability thus needs to be understood not only in its traditional sense as limiting the consumption of resources, but also in a more comprehensive sense as lasting conservation of nature as a productive force (Wood 1998). Because society and economy are regarded as subsystems of nature, sustainability has to be extended to signify the lasting functioning of these spheres and their interactions as well.

The construction industry influences spatial structures when it builds bridges, dams, tunnels or airports, projects that are more directly visible in Japan's rural areas than in the cities. Such public works projects are usually part of comprehensive development and construction plans that are characterized by very high levels of central government control. Since the early 1950s, these plans have adopted the concept of balanced regional development, aiming to supply badly needed "hard" infrastructure in the rural communities. However, the intended economic growth in the structurally weak regions failed to occur. On the contrary, the most obvious outcome of regional

planning was the unprecedented concentration of wealth and power in the metropolitan areas in the Pacific Coast Industrial Belt. Nevertheless, a large number of government financed projects, some of them downright absurdly expensive, are still under construction or under planning in the countryside.

From the standpoint of human ecology, neither the tempo nor the direction of Japanese regional development is sustainable, based as it is on plans involving white-elephant projects disregarding future costs and built merely to win votes. The massive investments in regional development projects that have left large tracts of Japan covered with concrete, have had negative effects on the economy, nature, and society. The pace and scope have led to fiscal crisis and environmental devastation and have aroused the opposition of local residents:

1. The fiscal crisis of local and national governments in Japan has recently become a major issue of concern. The unrestrained debt-financed allocation of public funds for public works projects to stimulate the economic cycle has given rise to a galloping national debt that threatens to become a nightmare for future generations (Igarashi 1999). Japan's fiscal condition is among the worst of all major industrialized nations, with government debts now standing at 130 percent of GDP.
2. Environmental devastation is the result of intense industrialization and urbanization processes on the one hand and oversized mega-infrastructure projects on the other. The contrast between the special Japanese affinity to nature, so often apostrophized in the literature, and the country's massive environmental problems still remains an unexplained phenomenon.
3. Recently, referendums against large-scale public works projects have become a new trend on the landscape of local politics in Japan (Jain 2000). Such referendums symbolize the growing opposition of local residents to Japan's public works policy. Moreover, Kabashima (2000) also sees signs of growing indignation among urban citizens at the waste of taxpayers' money on projects in rural areas that have only little benefit to the general public.

Although criticism of public works funding is increasing sharply, further government investments have been promised, e.g. in the Fifth Comprehensive National Development Plan (1998) or in MAFF's Village Restoration Plan (2001). So, what is wrong with Japan's regional development strategy? Much of the answer seems to lie in the institutional arrangements of the construction state, which help to spend money on public works projects to confer local benefits for political reasons. We shall theorize that sustainability will remain an unattainable ideal in Japanese regional development as long as the stability of this system is preserved by pork barrel politics.

This is the background. Our empirical work will concentrate on three aspects: firstly, on an evaluation of the national land planning instruments and programmes, secondly, on the institutional framework molding relations between the central government and local governments, including the structures and problems of the public finance system, and finally and most importantly, on referendums against public works projects. These referendums (*jûmin tôhyô*) show that actors outside the classic

"iron triangle" have emerged as some of the most vocal proponents of reform (Jain 2000). Although referendums are still without institutional enforceability, government and authorities cannot afford to disregard them completely. Their twists and turns will be examined in various case studies of pork barrel projects to assess the de facto relevance of citizen participation in Japan's politicoeconomic system.

## 5 The theory of rent-seeking as a conceptual framework

What the discussion up to this point has demonstrated is that the key actors in the Japanese political economy have been very successful in linking the political, bureaucratic, and industrial spheres into self-interest networks. In the public choice research program, politicians are modeled as providing a brokering function in the political market for wealth transfers. Special interest groups capable of effective organization and financial resources demand such political favors, making lobbying a key part of the political process. A significant portion of government activity is thus devoted to the transfer of resources to special interest groups, who seek to capture wealth transfers. The distributional effects of these measures are expected to influence the flow of lobbying expenditures, which are the costs of the so-called rent-seeking activities. Such rent-seeking efforts to maximize value generate social waste rather than social surplus (Buchanan 1980).

Political economists suggest two reasons why politicians and bureaucrats may choose to make such wasteful transfers: firstly, interest groups may be able to enhance politicians' chances of reelection by providing campaign contributions or political support. And secondly, interest groups can provide for politicians' and bureaucrats' financial well-being (McChesney 2001). According to the theory of rent-seeking there are at least three ways in which governments transfer resources in return for such favours with a lack of transparency and political accountability: regulation, restrictions on international trade, and governmental contracting. In case of the highly protected Japanese construction industry, all three types of transfers are systemically integrated into the institutionalized *dangō* system of mutual give and take. As a result, Japan's public works policy is being dictated by particular interests rather than by objective political guidelines. Because of the enormous outreach of government contracting, the spatial impact of rent-seeking activities is enormous. Much of the impact of pork barreling on regional economic, environmental and social concerns is negative; hence, reforms of the Japanese system are increasingly thought to be necessary (Igarashi 2001).

However, the task of eliminating wasteful rent-seeking is not an easy one. The public choice approach suggests that to fully resolve the rent-seeking problem, one must think in terms of radical reforms. In light of this situation, what is likely to happen to the construction state? Many Japanese critics feel that breaking up the "iron triangle" is unavoidable. They call first and foremost for structural reforms, including decentralization, cutting public works spending and restructuring the internationally uncompetitive industries (Miyai 2001). Japan can no longer afford to keep those industries protected if it wishes to return to economic growth. In fact, the reforms carried out since 1994 seem to have intensified the tensions and conflicts between

the three elite groups. There is still evidence, however, that the symbiotic links between the actors in construction policies have remained relatively stable despite these reforms. Ultimately, the problem is that so far the participating actors have vested interests in the stability of the system. Because politicians want to stay in power and the ministries want to avoid cutbacks in their budgets, they have no real interest in radical changes.

Since the end of April 2001 a new reform-minded government under prime minister Koizumi has been in office. In view of the ailing economy, institutional changes appertaining to public works planning and spending are thought to be a prerequisite to the political, economic, and ecological stability of the Japanese system as a whole. What Koizumi touts as structural reform in the construction industry, such as cuts in public works spending and the introduction of competitive principles in bidding procedures, would undoubtedly have a harsh impact on the construction industry. Moreover, all these measures serve to cut the funding of vested interests and to attack the power structure of the old regime. Thus they meet with determined resistance. Some critics argue that there will be no great changes in Japan's politico-economic system anytime soon (Vogel 1999). They think that Koizumi lacks the solid power base within his own conservative party to implement fundamental structural reforms. According to Noble (2001, p. 28), "the desire to avoid bankruptcies risks creating a continuing future stream of bad debts and financial paralysis" and thus destabilizes the whole system. Whether the new government will actually effect lasting changes remains to be seen.

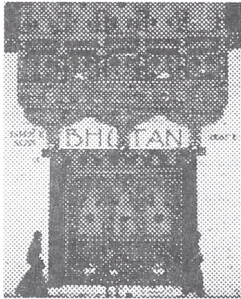
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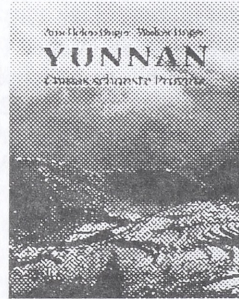
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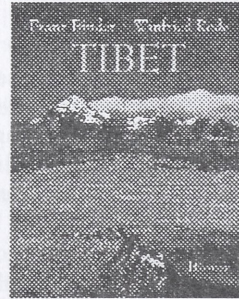
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